

NEW ISSUE - BOOK ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Webster & Anderson, Oakland, California, Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Bond Counsel, interest on the Series 1999 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 1999 Bonds. See "TAX MATTERS."

\$315,410,000

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

Sewer Revenue Bonds, Series 1999A and Series 1999B

(Payable Solely From Installment Payments Secured By Wastewater System Net Revenues)

Dated: March 1, 1999

Due: May 15, as shown on the inside cover page

The Series 1999A Bonds and the Series 1999B Bonds (collectively, the "Series 1999 Bonds") are issuable as fully registered bonds and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of the Series 1999 Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Series 1999 Bonds will not be entitled to receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 1999 Bonds. So long as DTC or its nominee is the registered owner of the Series 1999 Bonds, reference herein to Bondholders or registered owners shall mean Cede & Co., as aforesaid, and payments of principal of and interest on the Series 1999 Bonds will be made directly to DTC by State Street Bank and Trust Company of California, N.A., as Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See "DESCRIPTION OF THE SERIES 1999 BONDS — Book-Entry-Only System." Interest on the Series 1999 Bonds is payable on May 15 and November 15 of each year, commencing November 15, 1999.

The Series 1999 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

Proceeds of the Series 1999A Bonds are to be applied to (i) pay for certain capital improvements to the Metropolitan System of the City of San Diego (the "City"), (ii) to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds (defined below) and (iii) to pay certain costs of issuance. Proceeds of the Series 1999B Bonds are to be applied to (i) pay for certain capital improvements to the Municipal System of the City, (ii) to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds and (iii) to pay certain costs of issuance.

The payment of principal of and interest on the Series 1999 Bonds, excluding the Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 (collectively, the "Insured Series 1999 Bonds"), when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Insured Series 1999 Bonds. The Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 are not insured.



**Financial Guaranty Insurance
Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The Series 1999 Bonds are limited obligations of the Public Facilities Financing Authority of the City of San Diego (the "Authority") payable solely from Revenues, which Revenues include Installment Payments to be made by the City to the Authority from Net System Revenues pursuant to an Installment Purchase Agreement, as amended and supplemented, including as supplemented by the 1999-1 Supplement to the Master Installment Purchase Agreement, each between the Authority and the City, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues pursuant to the Installment Purchase Agreement to the payment of the Installment Payments. The Series 1999 Bonds are issued on a parity with the Authority's Sewer Revenue Bonds, Series 1993, Series 1995 and Series 1997 (collectively, the "Outstanding Parity Bonds").

The obligation of the City to make Installment Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the pledge made by the Authority, nor the obligation of the City to make Installment Payments, creates a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenues other than Net System Revenues. The Authority has no taxing power.

This cover page contains certain information for general reference only. It is not a summary of the issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed decision.

SEE MATURITY SCHEDULES ON INSIDE FRONT COVER

The Series 1999 Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Webster & Anderson, Oakland, California, Co-Bond Counsel, and to certain other conditions. Certain legal matters in connection with the Series 1999 Bonds will be passed upon by Casey Gwinn, Esq., City Attorney of the City of San Diego and General Counsel to the Authority and Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Disclosure Counsel. O'Melveny & Myers LLP has acted as counsel to the Underwriters for specified purposes. See "CERTAIN LEGAL MATTERS." It is expected that the Series 1999 Bonds will be available for delivery through DTC in New York, New York, on or about March 17, 1999.

Dea, Stearns & Co. Inc.
The Chapman Company

NationsBanc Montgomery Securities LLC
First Albany Corporation Prudential Securities

March 2, 1999

MATURITY SCHEDULE FOR SERIES 1999A BONDS**\$101,390,000 Serial Bonds**

<u>Maturity</u> <u>May 15</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>May 15</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2000	\$1,485,000	3.500%	3.100%	2010	\$5,000,000	5.125%	4.360%
2001	3,535,000	3.500	3.350	2011	5,260,000	5.125	4.460 ⁽¹⁾
2002	3,660,000	3.500	3.550	2012	5,530,000	5.125	4.560 ⁽¹⁾
2003	3,785,000	3.600	3.650	2013	5,810,000	4.600	4.660
2004	3,925,000	3.750	3.750	2014	6,080,000	5.000	4.750 ⁽²⁾
2005	4,070,000	3.800	3.850	2015	6,380,000	5.000	4.850 ⁽²⁾
2006	4,225,000	3.900	3.950	2016	6,700,000	5.000	4.900 ⁽²⁾
2007	4,390,000	5.000	4.050	2017	7,035,000	4.750	4.960
2008	4,610,000	4.100	4.150	2018	7,370,000	5.000	5.000
2009	4,800,000	4.250	4.250	2019	7,740,000	4.750	5.030

\$101,960,000 5.000% Term Bonds Due May 15, 2029 -- To Yield 5.110%
 (Accrued interest to be added)

MATURITY SCHEDULE FOR SERIES 1999B BONDS**\$55,645,000 Serial Bonds**

<u>Maturity</u> <u>May 15</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>May 15</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2000	\$ 765,000	3.500%	3.100%	2010	\$2,750,000	5.125%	4.360%
2001	1,910,000	3.500	3.350	2011	2,890,000	5.125	4.460 ⁽¹⁾
2002	1,975,000	4.250	3.550	2012	3,040,000	5.125	4.560 ⁽¹⁾
2003	2,060,000	4.250	3.650	2013	3,195,000	5.000	4.660 ⁽²⁾
2004	2,145,000	3.750	3.750	2014	3,355,000	5.000	4.750 ⁽²⁾
2005	2,230,000	3.800	3.850	2015	3,525,000	5.000	4.850 ⁽²⁾
2006	2,310,000	4.500	3.950	2016	3,700,000	5.000	4.900 ⁽²⁾
2007	2,415,000	4.000	4.050	2017	3,885,000	4.750	4.960
2008	2,515,000	5.000	4.150	2018	4,070,000	5.000	5.000
2009	2,640,000	4.250	4.250	2019	4,270,000	5.000	5.030

\$56,415,000 5.000% Term Bonds Due May 15, 2029 -- To Yield 5.110%
 (Accrued interest to be added)

- (1) Priced to call at 101% of par on May 15, 2009.
 (2) Priced to call at par on May 15, 2011.

\$315,410,000

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SEWER REVENUE BONDS, SERIES 1999A AND SERIES 1999B
(Payable Solely From Installment Payments Secured by Wastewater System Net Revenues)**

INTRODUCTION

This Official Statement, which includes the cover page and appendices, is being furnished in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of its \$315,410,000 combined aggregate principal amount of Sewer Revenue Bonds, Series 1999A and Series 1999B (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) (individually, the "Series 1999A Bonds" and the "Series 1999B Bonds" or a "Series" and collectively, the "Series 1999 Bonds"). The Series 1999 Bonds will be issued on a parity with (1) the Authority's Sewer Revenue Bonds, Series 1993 (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the "Series 1993 Bonds"), issued in the original aggregate principal amount of \$250,000,000, of which \$228,805,000 is currently outstanding, (2) the Authority's Sewer Revenue Bonds, Series 1995 (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the "Series 1995 Bonds"), issued in the original aggregate principal amount of \$350,000,000, of which \$343,860,000 is currently outstanding and (3) the Authority's Sewer Revenue Bonds, Series 1997A and 1997B (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (collectively, the "Series 1997 Bonds"), issued in the original combined aggregate principal amount of \$250,000,000, of which \$246,095,000 is currently outstanding (the Series 1993 Bonds, the Series 1995 Bonds and the Series 1997 Bonds are collectively referred to as the "Outstanding Parity Bonds"). Capitalized terms not otherwise defined herein shall have the meaning given to the terms in APPENDIX C -- "DEFINITIONS OF CERTAIN TERMS."

The Master Installment Purchase Agreement, dated as of September 1, 1993 (the "Master Installment Purchase Agreement"), as amended and supplemented, including as supplemented by the 1999-1 Supplement to Master Installment Purchase Agreement, dated as of March 1, 1999 (the "1999-1 Supplement"), each between the Authority and the City of San Diego (the "City") (the Master Installment Purchase Agreement, together with all supplements to the Master Installment Purchase Agreement, including the 1999-1 Supplement, are collectively referred to as the "Installment Purchase Agreement"), provides for the sale of certain facilities to the City by the Authority in consideration of the City's payment of Installment Payments to the Authority in an amount equal to the principal of and interest on the Series 1999 Bonds and the Outstanding Parity Bonds. The Indenture, dated as of September 1, 1993 (the "Original Indenture"), as amended and supplemented, including as supplemented by the Fifth Supplemental Indenture, dated as of March 1, 1999 (the "Fifth Supplemental Indenture"), each between the Authority and State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee") (the Original Indenture, together with all supplements to the Original Indenture, including the Fifth Supplemental Indenture, are collectively referred to as the "Indenture"), provides for the issuance of the Series 1999 Bonds. The Series 1999 Bonds are being issued pursuant to the provisions of the Joint Powers Act (commencing with Section 6500), comprising Article 1, Article 2 and Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California.

The Series 1999 Bonds are limited obligations of the Authority payable solely from Revenues, which Revenues include Installment Payments made by the City to the Authority from Net System Revenues (defined below) pursuant to the Installment Purchase Agreement, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). Installment Payments will be paid by the City to the Authority under the Installment Purchase Agreement in an amount equal to the principal and interest due on the Series 1999 Bonds and the Outstanding Parity Bonds. "System Revenues" consist primarily of moneys derived by the City from the ownership and operation of the Wastewater System (defined below). "Net System Revenues," for any fiscal year, are System Revenues for such fiscal year less Maintenance and Operation Costs of the Wastewater System for such fiscal year. The City has pledged Net System Revenues pursuant to the Installment Purchase Agreement to the payment of the Installment Payments. Pursuant to the Indenture, the Authority has irrevocably pledged the Revenues, which Revenues include Installment Payments pursuant to the

Installment Purchase Agreement, and amounts on deposit in the funds and accounts established under the Indenture (other than the Rebate Fund) to the payment of principal of and interest on the Series 1999 Bonds and the Outstanding Parity Bonds. See "SECURITY FOR THE SERIES 1999 BONDS."

The payment of principal of and interest on the Series 1999 Bonds, excluding the Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 (collectively, the "Insured Series 1999 Bonds"), when due will be guaranteed by a municipal bond insurance policy issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company, simultaneously with the delivery of the Insured Series 1999 Bonds. See "SECURITY FOR THE SERIES 1999 BONDS -- Bond Insurance" and APPENDIX F -- "SPECIMEN MUNICIPAL BOND INSURANCE POLICY." The Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 are not insured.

The Installment Purchase Agreement defines the Wastewater System to be any and all facilities, properties and improvements at any time owned, controlled or operated by the City as part of the Sewer Revenue Fund for the collection, treatment, distribution, administration, disposal or reclamation of waste, including the Municipal System and the Metropolitan System. The Municipal System consists of any and all facilities, properties and improvements at any time owned, controlled or operated by the City, and designated by the City in its sole discretion as part of the Municipal System for the collection of sewage from points of origination thereof and the conveyance thereof to the Metropolitan System. The Metropolitan System consists of any and all facilities, properties and improvements, designated by the City in its sole discretion as part of the Metropolitan System, and used for conveyance from the Municipal System and the treatment of sewage collected by the City through the Municipal System or by any of the Participating Agencies (defined herein).

Pursuant to the Installment Purchase Agreement, the Authority will acquire certain components of the Project with the proceeds of the Series 1999 Bonds and sell such components of the Project to the City in consideration of the City's payment of Installment Payments to the Authority. The Project consists of design and engineering costs, costs of land acquisition, construction and other costs relating to certain capital improvements to the Metropolitan System and Municipal System.

The obligation of the City to make Installment Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the pledge made by the Authority, nor the obligation of the City to make Installment Payments, creates a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenues other than Net System Revenues. The Authority has no taxing power.

DESCRIPTION OF THE SERIES 1999 BONDS

General Terms

The Series 1999 Bonds will be issued in two series as Series 1999A Bonds and Series 1999B Bonds in the respective aggregate principal amounts, will bear interest at the rates per annum and will mature in the principal amounts in each year (subject to prior redemption), as set forth on the inside cover page hereof. The Series 1999 Bonds are issuable only in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 1999 Bonds. Purchasers will not receive certificates representing their interest in the Series 1999 Bonds purchased. See "Book-Entry-Only System" below.

The Series 1999 Bonds may be transferred on the registration books of the Trustee kept for that purpose at the principal corporate trust office of the Trustee. The Trustee will not be required to register the transfer of any Series 1999 Bond (i) during the period commencing on the day five Business Days before the date on which the Series 1999 Bonds are to be selected for redemption and ending on such date of selection, or (ii) which has been selected for redemption in whole or in part. Similarly, the Trustee will not be required to register the transfer of the exchange of any Series 1999 Bond (i) during any period commencing with the close of business on the 15th day next preceding any Interest Payment Date and ending on such Interest Payment Date, (ii) during the period

Additional Parity Obligations

The City may not create any Obligations the payments of which are senior or prior in right to the payment by the City of Parity Obligations. The City may at any time and from time to time issue or create any other Parity Obligations on a parity with the Installment Payments pledged to the payment of the Series 1999 Bonds and the Outstanding Parity Bonds so long as no Event of Default under the Installment Purchase Agreement has occurred and is continuing and no event of default or Termination Event under any Qualified Swap Agreement has occurred and is continuing, and provided the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that: (i) the Net System Revenues as shown by the books of the City for any 12 consecutive month period out of the 18 consecutive months ending immediately prior to the incurring of such other additional Parity Obligations shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations Outstanding during such period; and (ii) the estimated Net System Revenues for the next 12 months following the date of issuance of such other Parity Obligations will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which will be Outstanding immediately after the issuance of the proposed Parity Obligations. See "SECURITY FOR THE SERIES 1999 BONDS."

Special Considerations For Bondholders

See "SPECIAL CONSIDERATIONS FOR BONDHOLDERS" for a description of certain risk factors relating to the Series 1999 Bonds.

Continuing Disclosure and Additional Information

See "CONTINUING DISCLOSURE" and APPENDIX G -- "FORM OF CONTINUING DISCLOSURE AGREEMENT" regarding the City's obligation to provide annual financial and operating information and information regarding the occurrence of certain events. Copies of the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Agreement, the City Charter, the Sewer Revenue Fund audited financial statements and additional information relating to the City and the Series 1999 Bonds may be obtained from the Office of the City Clerk, City Administration Building, 202 C Street, MS 2A, San Diego, California 92101.

Security for the Series 1999 Bonds

The Series 1999 Bonds are limited obligations of the Authority payable solely from Revenues, which Revenues include Installment Payments secured by a prior lien on and pledge of Net System Revenues by the City to the Authority under the Installment Purchase Agreement, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). "Net System Revenues," for any fiscal year, are System Revenues for such fiscal year less Maintenance and Operation Costs of the Wastewater System for such fiscal year.

The City has covenanted in the Installment Purchase Agreement not to discontinue or suspend any Installment Payments required to be made by it thereunder whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or non-performance by any party of any agreement for any cause whatsoever.

The obligation of the City to make Installment Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the pledge made by the Authority, nor the obligation of the City to make Installment Payments, creates a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenues other than Net System Revenues. The Authority has no taxing power. See "SECURITY FOR THE SERIES 1999 BONDS."

Insurance on Certain Series 1999 Bonds

The payment of principal of and interest on the Series 1999 Bonds, excluding the Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 (collectively, the "Insured Series 1999 Bonds"), when due will be guaranteed by a municipal bond insurance policy issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company, simultaneously with the delivery of the Insured Series 1999 Bonds. See "SECURITY FOR THE SERIES 1999 BONDS -- Bond Insurance" and APPENDIX F -- "SPECIMEN MUNICIPAL BOND INSURANCE POLICY." The Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 are not insured.

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the wastewater service which will be at least sufficient to pay all Obligations (other than Parity Obligations) and to yield during each fiscal year Net System Revenues equal to 120% of the Debt Service for such fiscal year. Net System Revenues may be increased or reduced by transfers in or out of the Rate Stabilization Fund. See "SECURITY FOR THE SERIES 1999 BONDS" and "WASTEWATER SYSTEM FINANCIAL OPERATIONS -- Impact of Proposition 218 on Sewer Service Rates and Charges."

Reserve Fund

For information regarding the Reserve Fund for the Series 1999 Bonds and the Outstanding Parity Bonds, see "SECURITY FOR THE SERIES 1999 BONDS."

Outstanding Parity Bonds

The City has outstanding \$818,760,000 in Parity Obligations incurred in connection with the issuance of the Authority's \$250,000,000 original aggregate principal amount of Sewer Revenue Bonds, Series 1993, the Authority's \$350,000,000 original aggregate principal amount of Sewer Revenue Bonds, Series 1995 and the Authority's \$250,000,000 original combined aggregate principal amount of Sewer Revenue Bonds, Series 1997A and Series 1997B (collectively, the "Outstanding Parity Bonds").

SUMMARY STATEMENT

This Summary Statement is qualified in all respects by the more complete information contained elsewhere in this Official Statement, including the Appendices. This Official Statement should be read in its entirety, and no one subject discussed herein should be considered less important than any other by reason of its location in the text. Unless otherwise defined below, all capitalized terms used in this Summary Statement shall have the meanings ascribed thereto in Appendix C to this Official Statement.

City of San Diego

The City is the sixth largest city in the United States and the second largest city in the State of California. The City's population is approximately 1.2 million. See APPENDIX B -- "CERTAIN INFORMATION REGARDING THE CITY OF SAN DIEGO AND AREA."

The San Diego Wastewater System

The Wastewater System is owned and operated by the City under the administration of the Metropolitan Wastewater Department and consists of the Municipal System and Metropolitan System. The Municipal System provides sewage collection within the City and consists of over 2,544 miles of municipal sewer mains and 96 sewer and storm water interceptor pumping stations within the City. The Metropolitan System provides sewage transportation, treatment and disposal services to more than 1.9 million residents within a regional service area which encompasses the City and 14 Participating Agencies (nine cities and five districts). The communities and agencies served by the Wastewater System form the second largest integrated metropolitan area in the State of California surpassed only by the Los Angeles metropolitan area. See "WASTEWATER SYSTEM."

The operations of the Wastewater System are accounted for in an enterprise fund -- the Sewer Revenue Fund which was established by amendment to the City Charter on June 5, 1956. All Wastewater System Revenues are deposited in the Sewer Revenue Fund. The Installment Payments relating to the Series 1999 Bonds and the Outstanding Parity Bonds are, and any Parity Obligations will be, secured by Net System Revenues.

The Authority

The Authority is a joint powers authority created by the City and its Redevelopment Agency to engage in financing activities. The Authority has no taxing power. See "THE AUTHORITY."

Purpose of Financing

The Series 1999A Bonds are being issued (i) to pay for certain capital improvements to the Metropolitan System, (ii) to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds and (iii) to pay certain costs of issuance. The Series 1999B Bonds are being issued (i) to pay for certain capital improvements to the Municipal System, (ii) to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds and (iii) to pay certain costs of issuance. See "DESCRIPTION OF THE SERIES 1999 BONDS."

The Series 1999 Bonds

The Series 1999 Bonds will be issued in the combined aggregate principal amount of \$315,410,000. The Series 1999 Bonds shall be in denominations of \$5,000 and any integral multiple thereof. See "DESCRIPTION OF THE SERIES 1999 BONDS."

Redemption Provisions

The Series 1999 Bonds are subject to optional redemption with the redemption premiums described herein, and the Series 1999 Bonds designated as Term Bonds are subject to mandatory redemption, all as more fully described herein. See "DESCRIPTION OF THE SERIES 1999 BONDS."

The 1999A Term Bonds are subject to mandatory sinking fund redemption on May 15 in the years and in the principal amounts set forth in the table below:

<u>Year</u>	<u>Principal Amount</u>
2020	\$ 8,105,000
2021	8,510,000
2022	8,940,000
2023	9,385,000
2024	9,855,000
2025	10,345,000
2026	10,865,000
2027	11,405,000
2028	11,975,000
2029*	12,575,000

* Maturity

Mandatory Sinking Fund Redemption - Series 1999B Bonds. The Series 1999B Bonds maturing on May 15, 2029 (the "1999B Term Bonds" and together with the 1999A Term Bonds, the "Term Bonds") are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof without premium plus accrued interest to the redemption date.

The 1999B Term Bonds are subject to mandatory sinking fund redemption on May 15 in the years and in the principal amounts set forth in the table below:

<u>Year</u>	<u>Principal Amount</u>
2020	\$4,485,000
2021	4,710,000
2022	4,945,000
2023	5,195,000
2024	5,450,000
2025	5,725,000
2026	6,010,000
2027	6,310,000
2028	6,625,000
2029*	6,960,000

* Maturity

Credit Against Mandatory Sinking Fund Requirement. At the option of the Authority, it may credit against any mandatory sinking fund requirement Term Bonds or portions thereof which are of the same Series and maturity as the Term Bonds subject to mandatory sinking fund redemption and which, prior to said date, have been purchased, with funds other than moneys in a Sinking Account, at public or private sale or redeemed and canceled by the Authority and not theretofore applied as a credit against any mandatory sinking fund requirement. The Authority and the City may also elect to have moneys in the Sinking Account applied to the purchase of Series 1999 Bonds which in turn shall be credited against any mandatory sinking fund redemption requirement, all as provided for in the Indenture. If, during the 12-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, such Bonds so purchased will be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

Notice of Redemption. Notice of redemption will be given by the Trustee not less than 30 days nor more than 60 days prior to the redemption date to (i) the respective Owners of the Series 1999 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee by first class mail, and (ii) the Securities Depositories and the Information Services by certified or registered mail or overnight delivery. Each

commencing 15 days before the mailing of any notice of redemption and ending on the day of such mailing or (iii) which has been selected for redemption in whole or in part.

Interest on the Series 1999 Bonds will be paid to the persons in whose names such Series 1999 Bonds are registered as of the Record Date preceding the applicable Interest Payment Date, which is the 15th day (whether or not such day is a Business Day) preceding such Interest Payment Date. Interest on the Series 1999 Bonds will be payable by check mailed by first class mail on such Interest Payment Date to the registered owners at the addresses shown on the registration books of the Trustee kept for that purpose at the principal corporate trust office of the Trustee; provided, however, that in the event the ownership of such Series 1999 Bonds is no longer maintained in book-entry form by DTC, interest shall be payable by wire transfer to any registered owner who owns Series 1999 Bonds in an aggregate principal amount of at least \$1,000,000, in immediately available funds to an account in the United States of America designated in writing by such owner to the Trustee prior to the applicable Record Date. Interest on the Series 1999 Bonds will be payable in lawful money of the United States of America and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The principal and redemption price of all Series 1999 Bonds will be payable at the principal corporate trust office of the Trustee.

Series 1999 Bonds

The Series 1999 Bonds will be dated March 1, 1999 and interest thereon will accrue from such date. Beneficial ownership of Series 1999 Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof in book-entry form only. Interest on the Series 1999 Bonds is payable on May 15 and November 15 of each year, commencing November 15, 1999. The Series 1999A Bonds and the Series 1999B Bonds maturing on or before May 15, 2009, are not subject to redemption prior to maturity. The Series 1999 Bonds will mature on the dates and in the aggregate principal amounts (subject to prior redemption), and will bear interest at the per annum rates, set forth on the inside cover page of this Official Statement.

Optional Redemption. If the City elects its option to prepay Installment Payments under the terms of the Installment Purchase Agreement, the Series 1999A Bonds and the Series 1999B Bonds maturing on May 15, 2010 through and including May 15, 2029 are each separately subject to redemption prior to their respective stated maturities on or after May 15, 2009, in whole or in part on any date (by lot within any maturity for each Series and among maturities as specified by the Authority), at the redemption prices set forth below (expressed as a percentage of the principal amount, or portion thereof, to be prepaid), plus accrued interest to the date fixed for redemption:

<u>Redemption Period</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>Price</u>
May 15, 2009 through May 14, 2010	101.0%
May 15, 2010 through May 14, 2011	100.5
May 15, 2011 and thereafter	100.0

Mandatory Sinking Fund Redemption - Series 1999A Bonds. The Series 1999A Bonds maturing on May 15, 2029 (the "1999A Term Bonds") are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof without premium plus accrued interest to the redemption date, as set forth below:

notice of redemption will state the date of such redemption, the Series of Series 1999 Bonds or Outstanding Parity Bonds to be redeemed, the redemption price, if any, (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers and Series of the Series 1999 Bonds of such maturity to be redeemed and, in the case of Series 1999 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Series 1999 Bonds thereof and in the case of a Series 1999 Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and shall require that such Series 1999 Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of any redemption of Series 1999 Bonds will either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the Redemption Account on the redemption date sufficient money to pay the full redemption price of the Series 1999 Bonds to be redeemed or (ii) be sent only if sufficient money to pay the full redemption price of the Series 1999 Bonds to be redeemed is on deposit in the Redemption Account or other applicable fund or account.

Book-Entry-Only System

The information contained in the following paragraphs of this subsection "Book-Entry-Only System" has been extracted from a schedule prepared by DTC entitled "SAMPLE OFFICIAL STATEMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE." None of the Authority, the City or the Underwriters makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

1. DTC will act as securities depository for the Series 1999 Bonds. The Series 1999 Bonds will be issued as fully registered securities in the names of Cede & Co. (DTC's partnership nominee). One fully registered Series 1999 Bonds certificate will be issued for each maturity of each Series of the Series 1999 Bonds, each in the aggregate principal amount of such maturity of such Series, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity of such Series exceeds \$150 million, one certificate will be issued with respect to each \$150 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

3. Purchases of Series 1999 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1999 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1999 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in Series 1999 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Series 1999 Bonds, except in the event that use of the book-entry system for the Series 1999 Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 1999 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1999 Bonds with DTC and their registration in name of Cede & Co., effects no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1999 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1999 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to Cede & Co. If less than all of the Series 1999A Bonds or the Series 1999B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

7. Neither DTC nor Cede & Co. will consent or vote with respect to the Series 1999 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 1999 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest on the Series 1999 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Series 1999 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 1999 Bonds will be printed and delivered.

10. The Authority may decide to discontinue use of the system book-entry transfers through DTC (or a successor securities depository). In that event, Series 1999 Bond certificates will be printed and delivered.

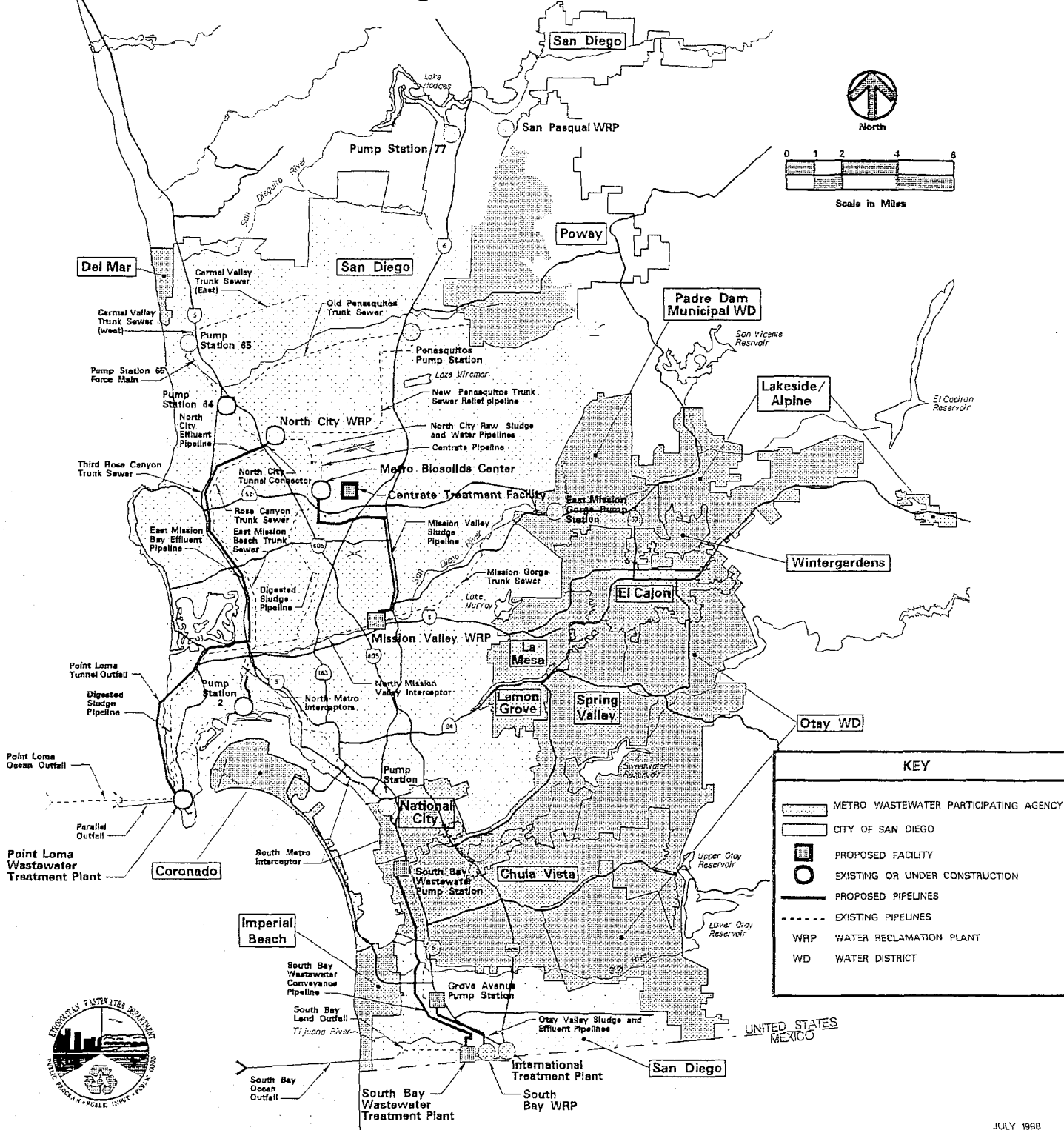
11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but neither the Authority nor the City takes any responsibility for the accuracy thereof.

DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to security holders, book-entry deliveries, and settlement of trades within DTC ("DTC Services"), continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors, from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon



City of San Diego Metropolitan Wastewater Department Existing and Planned Facilities



KEY	
	METRO WASTEWATER PARTICIPATING AGENCY
	CITY OF SAN DIEGO
	PROPOSED FACILITY
	EXISTING OR UNDER CONSTRUCTION
	PROPOSED PIPELINES
	EXISTING PIPELINES
	WRP WATER RECLAMATION PLANT
	WD WATER DISTRICT



CITY OF SAN DIEGO

CITY COUNCIL

Susan Golding, *Mayor*

Harry Mathis
Byron Wear
Christine Kehoe
George Stevens

Barbara Warden
Valerie Stallings
Judy McCarty
Juan Vargas

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn
City Attorney

Ed Ryan
City Auditor and Comptroller

Patricia T. Frazier
Deputy City Manager
Financial and Technical Services

Charles Abdelnour
City Clerk

Conny M. Jamison
City Treasurer

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "DESCRIPTION OF THE SERIES 1999 BONDS -- Book-Entry Only System," "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements," "WASTEWATER SYSTEM FINANCIAL OPERATIONS -- Year 2000 Computer Issues" and "FINANCIAL PROJECTIONS."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

No broker, dealer, salesperson or other person has been authorized by the City of San Diego (the "City"), the Public Facilities Financing Authority of the City of San Diego (the "Authority") or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Authority or the Underwriters. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 1999 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 1999 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth in this Official Statement has been obtained from official sources and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City, the Authority or the Wastewater System since the date hereof. This Official Statement is submitted in connection with the sale of the Series 1999 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The summaries and references to the Indenture, Installment Purchase Agreement, the Continuing Disclosure Agreement, the City Charter and to other statutes and documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document and statute. This Official Statement including any amendment or supplement hereto is intended to be deposited with one or more depositories. The Series 1999 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act.

IN CONNECTION WITH THIS OFFERING OF THE SERIES 1999 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

NONE OF THE AUTHORITY, THE CITY OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 1999 BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDOWNERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDOWNER; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 1999 BONDS.

Purpose of Financing

The proceeds of the Series 1999A Bonds will be used for Metropolitan System capital improvements and the proceeds of Series 1999B Bonds will be used for Municipal System capital improvements. (See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM.") For both the Metropolitan System and the Municipal System, capital improvement costs include costs of design, engineering, legal and administrative services, acquisition of third-party rights-of-way, land acquisition, construction and equipment. In addition to funding certain Metropolitan System capital improvements, the remaining proceeds of the Series 1999A Bonds will be used to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds and to pay certain costs of issuance. The remaining proceeds of the Series 1999B Bonds will be used to fund a portion of the debt service reserve fund securing the Series 1999 Bonds and the Outstanding Parity Bonds and to pay certain costs of issuance.

Application of Series 1999 Bond Proceeds

The proceeds of the Series 1999 Bonds (excluding accrued interest which will be deposited in the Interest Account in the Payment Fund) are to be applied as follows:

	<u>Series 1999A Bonds</u>	<u>Series 1999B Bonds</u>	<u>Total</u>
Principal Amount	\$203,350,000.00	\$112,060,000.00	\$315,410,000.00
Net Original Issue (Discount)/Premium	<u>(735,286.85)</u>	<u>28,754.70</u>	<u>(706,532.15)</u>
Total Available Funds	\$202,614,713.15	\$112,088,754.70	\$314,703,467.85
Deposit to Acquisition Fund Account ⁽¹⁾	\$187,624,000.00	\$103,826,000.00	\$291,450,000.00
Deposit to Reserve Fund ⁽²⁾	13,221,002.59	7,285,692.41	20,506,695.00
Cost of Issuance ⁽³⁾	323,613.47	180,162.17	503,775.64
Underwriters' Discount ⁽⁴⁾	<u>1,446,097.09</u>	<u>796,900.12</u>	<u>2,242,997.21</u>
Total Amount Applied	\$202,614,713.15	\$112,088,754.70	\$314,703,467.85

(1) To be held by the City and applied to pay Metropolitan System Acquisition Costs with respect to the Series 1999A Bonds and Municipal System Acquisition Costs with respect to the Series 1999B Bonds.

(2) This deposit, together with the Credit Facility currently held by the Trustee for the benefit of the Reserve Fund with respect to the Outstanding Parity Bonds, comprise an amount equal to the Reserve Requirement. See "SECURITY FOR THE SERIES 1999 BONDS - Reserve Fund."

(3) Includes legal fees, financial advisor fees, rating agency fees, printing costs and other required expenses.

(4) Includes the bond insurance premium to be paid by the Underwriters.

Debt Service Requirements

The following table shows the total debt service requirements from Net System Revenues with respect to the Series 1999A Bonds, the Series 1999B Bonds and the Outstanding Parity Bonds.

Table 1
TOTAL DEBT SERVICE REQUIREMENTS

Year Ending June 30	Series 1999A Bonds		Series 1999B Bonds		Outstanding Parity Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
1999					\$15,430,000	\$41,107,795.00	\$56,537,795.00
2000	\$1,485,000	\$11,720,414.13	\$ 765,000	\$6,539,750.10	16,050,000	40,494,645.00	77,054,809.22
2001	3,535,000	9,670,027.50	1,910,000	5,397,902.50	16,705,000	39,836,595.00	77,054,525.00
2002	3,660,000	9,546,302.50	1,975,000	5,331,052.50	17,410,000	39,131,530.00	77,053,885.00
2003	3,785,000	9,418,202.50	2,060,000	5,247,115.00	18,155,000	38,380,617.50	77,045,935.00
2004	3,925,000	9,281,942.50	2,145,000	5,159,565.00	18,960,000	37,578,915.00	77,050,422.50
2005	4,070,000	9,134,755.00	2,230,000	5,079,127.50	19,820,000	36,720,740.00	77,054,622.50
2006	4,225,000	8,980,095.00	2,310,000	4,994,387.50	20,855,000	35,687,480.00	77,051,962.50
2007	4,390,000	8,815,320.00	2,415,000	4,890,437.50	21,955,000	34,585,580.00	77,051,337.50
2008	4,610,000	8,595,820.00	2,515,000	4,793,837.50	23,125,000	33,415,570.00	77,055,227.50
2009	4,800,000	8,406,810.00	2,640,000	4,668,087.50	24,260,000	32,280,738.75	77,055,636.25
2010	5,000,000	8,202,810.00	2,750,000	4,555,887.50	25,450,000	31,088,267.50	77,046,965.00
2011	5,260,000	7,946,560.00	2,890,000	4,414,950.00	26,720,000	29,817,277.50	77,048,787.50
2012	5,530,000	7,676,985.00	3,040,000	4,266,837.50	28,085,000	28,450,492.50	77,049,315.00
2013	5,810,000	7,393,572.50	3,195,000	4,111,037.50	29,530,000	27,010,217.50	77,049,827.50
2014	6,080,000	7,126,312.50	3,355,000	3,951,287.50	31,050,000	25,489,585.00	77,052,185.00
2015	6,380,000	6,822,312.50	3,525,000	3,783,537.50	32,685,000	23,855,900.00	77,051,750.00
2016	6,700,000	6,503,312.50	3,700,000	3,607,287.50	34,375,000	22,163,756.25	77,049,356.25
2017	7,035,000	6,168,312.50	3,885,000	3,422,287.50	36,155,000	20,384,043.75	77,049,643.75
2018	7,370,000	5,834,150.00	4,070,000	3,237,750.00	38,025,000	18,512,075.00	77,048,975.00
2019	7,740,000	5,465,650.00	4,270,000	3,034,250.00	39,985,000	16,555,662.50	77,050,562.50
2020	8,105,000	5,098,000.00	4,485,000	2,820,750.00	42,040,000	14,498,350.00	77,047,100.00
2021	8,510,000	4,692,750.00	4,710,000	2,596,500.00	44,200,000	12,335,250.00	77,044,500.00
2022	8,940,000	4,267,250.00	4,945,000	2,361,000.00	46,440,000	10,096,187.50	77,049,437.50
2023	9,385,000	3,820,250.00	5,195,000	2,113,750.00	48,790,000	7,743,587.50	77,047,587.50
2024	9,855,000	3,351,000.00	5,450,000	1,854,000.00	34,950,000	5,271,887.50	60,731,887.50
2025	10,345,000	2,858,250.00	5,725,000	1,581,500.00	36,730,000	3,490,487.50	60,730,237.50
2026	10,865,000	2,341,000.00	6,010,000	1,295,250.00	15,020,000	1,618,312.50	37,149,562.50
2027	11,405,000	1,797,750.00	6,310,000	994,750.00	15,805,000	829,762.50	37,142,262.50
2028	11,975,000	1,227,500.00	6,625,000	679,250.00	--	--	20,506,750.00
2029	12,575,000	628,750.00	6,960,000	348,000.00	--	--	20,511,750.00
TOTAL	\$203,350,000	\$192,792,166.63	\$112,060,000	\$107,131,125.10	\$818,760,000	\$708,431,308.75	\$2,142,524,800.47

SECURITY FOR THE SERIES 1999 BONDS

Source of Payment

The Series 1999 Bonds are limited obligations of the Authority payable solely from Revenues, which Revenues include Installment Payments made by the City pursuant to the Installment Purchase Agreement solely from Net System Revenues, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The Series 1999 Bonds will be issued on a parity with the Outstanding Parity Bonds. See "SECURITY FOR THE SERIES 1999 BONDS – Outstanding Parity Bonds." All Parity Obligations, including the Installment Payments pledged to the payment of the Series 1999 Bonds and the Outstanding Parity Bonds, shall be secured by a prior lien on and pledge of Net System Revenues. Parity Obligations shall be of equal rank without preference, priority or distinction of any Parity Obligations over any other Parity Obligations. The lien and pledge shall constitute a first lien on Net System Revenues; provided, however, that out of Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Agreement.

The Sewer Revenue Fund

The City accounts for its wastewater operations through an enterprise fund known as the Sewer Revenue Fund. The Sewer Revenue Fund was established by amendment to the City Charter on June 5, 1956. All System Revenues are deposited in the Sewer Revenue Fund. All moneys in the Sewer Revenue Fund shall be used to pay (i) all Maintenance and Operation Costs of the Wastewater System, (ii) all Parity Obligations (other than Qualified Take or Pay Obligations or Qualified Swap Agreements), including Installment Payments equal to the principal and interest on the Series 1999 Bonds and the Outstanding Parity Bonds, (iii) any Qualified Take or Pay Obligation and (iv) any Qualified Swap Agreement. After such payments have been made, any remaining System Revenues shall be used to make up any deficiency in the Reserve Funds or Reserve Accounts for Parity Obligations (including restoring the amount of a Credit Facility deposited in the Reserve Fund to its pre-draw amount) and, subject to certain conditions, then may be used to pay for capital expenditures for the Wastewater System or any other Wastewater System purpose, including the payment of Subordinated Obligations, if any, provided certain conditions are met.

Net System Revenues

"Net System Revenues" means, for any fiscal year, System Revenues for such fiscal year less Maintenance and Operation Costs of the Wastewater System for such fiscal year. "System Revenues" are defined in the Installment Purchase Agreement to include all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into the Rate Stabilization Fund, and there shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Wastewater System. See "Rate Stabilization Fund; Impact of Proposition 218" below. Under the Installment Purchase Agreement, the City has retained the right to transfer ownership of the Metropolitan System. For a more detailed description of this potential transfer of ownership, see "Possible Transfer of Ownership of Metropolitan System" below. Upon any such transfer of the Metropolitan System permitted by the Installment Purchase Agreement, System Revenues shall be deemed to consist of Municipal System Revenues with respect to the City and Metropolitan System Revenues with respect to the transferee. For a more detailed description of System Revenues, Metropolitan System Revenues and Municipal System Revenues, see APPENDIX C – "DEFINITIONS OF CERTAIN TERMS."

"Maintenance and Operations Costs of the Wastewater System" are defined in the Installment Purchase Agreement to include, among other things (i) a Qualified Take or Pay Obligation (defined below) and (ii) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles, but excluding in all cases (a) depreciation, replacement and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, (c) costs of capital additions, replacements, betterments, extensions or improvements to the Wastewater System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (d) charges for the payment of principal and interest on any general obligation bond theretofore or hereafter issued for Wastewater System purposes, and (e) charges for the payment of principal and

interest on any debt service on account of any obligation on a parity with or subordinate to the Installment Payments. "Qualified Take or Pay Obligation" means the obligation of the City to make use of any facility, property or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties or services are ever made available to the City for use, and there is provided to the City a certificate of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the rate covenant contained in the Installment Purchase Agreement. Under the Installment Purchase Agreement, the City has retained the right to transfer ownership of the Metropolitan System. For a more detailed description of this potential transfer of ownership, see "Possible Transfer of Ownership of Metropolitan System" below. Upon any such transfer of the Metropolitan System permitted by the Installment Purchase Agreement, Maintenance and Operations Costs of the Wastewater System shall be deemed to be Maintenance and Operations Costs of the Municipal System with respect to the City and Maintenance and Operations Costs of the Metropolitan System with respect to the transferee. For a more detailed description of Maintenance and Operations Costs of the Wastewater System, the Metropolitan System and the Municipal System, respectively, see APPENDIX C -- "DEFINITIONS OF CERTAIN TERMS."

Obligation of City Under Installment Purchase Agreement

Pursuant to the Installment Purchase Agreement, the City commits, absolutely and unconditionally, to make Installment Payments to the Authority solely from Net System Revenues until such time as the Purchase Price for the Components of the Project financed has been paid in full (or provision for the payment thereof has been made pursuant to the Indenture). The City will not discontinue or suspend any Installment Payments required to be made by it under the Installment Purchase Agreement whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or non-performance by any party of any agreement for any cause whatsoever.

Rate Covenant; Impact of Proposition 218

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for wastewater service which will be at least sufficient (i) to pay all Obligations (other than Parity Obligations) and (ii) to yield during each fiscal year Net System Revenues equal to 120% of the Debt Service for such fiscal year. The City may make adjustments from time to time in such rates and charges including reclassification of users as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement. However, for information on the possible limitation on the City's ability to comply with the rate covenant, see "WASTEWATER SYSTEM FINANCIAL OPERATIONS -- Impact of Proposition 218 on Sewer Service Rates and Charges."

Possible Transfer of Ownership of Metropolitan System

Under the Installment Purchase Agreement, the City has retained the right to transfer ownership of the Metropolitan System to the San Diego Wastewater Management District discussed below (the "District") or another governmental agency whose primary purpose is to provide wastewater treatment and disposal service, provided the District or such entity agrees to assume all obligations of the City under the Installment Purchase Agreement relating to the Metropolitan System and all other obligations relating to the Metropolitan System which are payable from Metropolitan System Revenues, Net Metropolitan System Revenues, System Revenues or Net System Revenues, and provided that the terms and conditions (including certain financial and ratings maintenance covenants) contained in the Installment Purchase Agreement with respect to such transfer are satisfied. Upon any transfer the City will no longer be responsible for such obligations and such successor entity will be responsible for the obligations. See APPENDIX D -- "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- THE INSTALLMENT PURCHASE AGREEMENT -- Covenants of the City -- Transfer of Metropolitan System Components."

The California legislature created the District in 1992 to provide wastewater treatment services on a regional basis. The legislation creating the District was an outgrowth of a consensus developed by representatives of the City, the Participating Agencies (defined below) and others to provide a regional approach to wastewater treatment. Initially, the District consisted of 13 member agencies, including the City. However, as a consequence of

unresolved issues relating to cost sharing and governance among the member agencies, the City withdrew from the District. From time to time, certain member agencies have withdrawn from the District and certain others have rejoined. There is nothing preventing any or all of the withdrawing agencies from rejoining the District. The City has made no determinations with respect to whether it will return to the District as a member or whether it will transfer ownership of the Metropolitan System to the District. See "WASTEWATER SYSTEM -- The Participating Agencies and the Regional Wastewater Disposal Agreement" for information on the City's obligation to provide the Participating Agencies the right of first refusal on any offer to sell the Metropolitan System.

Rate Stabilization Fund; Impact of Proposition 218

The City has established the Rate Stabilization Fund as a fund within the Sewer Revenue Fund. From time to time, the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. From time to time, the City may transfer amounts on deposit in the Rate Stabilization Fund to the Sewer Revenue Fund solely and exclusively to pay Maintenance and Operation Costs of the Wastewater System, and any amounts so transferred shall be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues. However, for information on the possible limitation on the City's ability to set rates and charges at levels which would permit the City to make deposits into the Rate Stabilization Fund, see "WASTEWATER SYSTEM FINANCIAL OPERATIONS -- Impact of Proposition 218 on Sewer Service Rates and Charges." See also Table 14 and paragraph 4 under the caption "FINANCIAL PROJECTIONS -- Projected Operating Results" for currently anticipated deposits into and withdrawals from the Rate Stabilization Fund incident to the currently contemplated Wastewater System Capital Improvement Program.

Pledge Under the Indenture

Pursuant to the Indenture, the Authority has irrevocably pledged all Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund) to the payments of principal and interest on the Series 1999 Bonds and the Outstanding Parity Bonds. The Indenture defines the term "Revenues" to mean all Installment Payments paid by the City pursuant to the Installment Purchase Agreement, and the interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the Indenture. In order to secure the pledge of the Revenues pursuant to the Indenture, the Authority has transferred, conveyed and assigned to the Trustee, for the benefit of the Owners, all of the Authority's rights under the Installment Purchase Agreement (excluding its right to indemnification thereunder), including the right to receive Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the Project, and the right to exercise any remedies provided therein in the event of a default by the City thereunder.

The Trustee has established and will maintain special trust funds to be held by the Trustee called the Payment Fund and the Reserve Fund. Within the Payment Fund, the Trustee has established and will maintain the Interest Account, the Principal Account and the Redemption Account, and within the Principal Account, separate Sinking Accounts. Under the Installment Purchase Agreement, the City will pay the Installment Payments out of the Sewer Revenue Fund to the Trustee for deposit into the Payment Fund so that the principal and interest due on the Series 1999 Bonds and the Outstanding Parity Bonds shall be paid no later than the last business day on which such payment is due. Subject to the provisions of the Indenture, all money in the Payment Fund will be deposited by the Trustee in the following respective special accounts within the Payment Fund in the following order of priority: (i) Interest Account, (ii) Principal Account, and (iii) Redemption Account. See APPENDIX D -- "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Bond Insurance

The payment of principal of and interest on the Insured Series 1999 Bonds when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Insured Series 1999 Bonds. The Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 are not insured. The following information has been furnished by Financial Guaranty Insurance Company for use in this Official Statement. Reference is made to Appendix F for a specimen of municipal bond insurance policy.

Concurrently with the issuance of the Insured Series 1999 Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Insured Series 1999 Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Insured Series 1999 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Insured Series 1999 Bonds (the "Issuer"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Insured Series 1999 Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Insured Series 1999 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Insured Series 1999 Bond includes any payment of principal or interest made to an owner of a Insured Series 1999 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Insured Series 1999 Bonds. The Policy covers failure to pay principal of the Insured Series 1999 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Insured Series 1999 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Insured Series 1999 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Insured Series 1999 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Insured Series 1999 Bonds. Reference should be made to the description of the Issuer for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 1998, the total capital and surplus of Financial Guaranty was \$1,258,215,191. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

Reserve Fund

A portion of the proceeds of the Series 1999 Bonds will be deposited in the Reserve Fund, which together with the Credit Facility currently held by the Trustee for the benefit of the Reserve Fund, will equal the Reserve Requirement. The Reserve Requirement is defined to be, as of any date of calculation, the least of (i) 10% of the proceeds of the Series 1999 Bonds and the Outstanding Parity Bonds, (ii) Maximum Annual Debt Service on the Series 1999 Bonds and the Outstanding Parity Bonds for the current or any future fiscal year, or (iii) 125% of average Annual Debt Service on the Series 1999 Bonds and the Outstanding Parity Bonds. In September 1998, the City withdrew amounts on deposit in the Reserve Fund and deposited with the Trustee a Credit Facility in the form of a reserve fund surety bond issued by Ambac Assurance Corporation in the maximum stated amount of \$56,548,941.25 for the benefit of the Reserve Fund, in accordance with the provisions described below. The City used the amounts released from the Reserve Fund for the construction, replacement and improvements to the Wastewater System.

At the option of the City, amounts required to be held in the Reserve Fund may be withdrawn, in whole or in part, upon the deposit of a Credit Facility with the Trustee, in a stated amount equal to the amounts so withdrawn, provided, among other things, that prior to the deposit of such Credit Facility, each of the rating agencies then rating the Series 1999 Bonds and the Outstanding Parity Bonds is notified of such proposed withdrawal and the deposit of such Credit Facility will not result in a withdrawal or downgrading of any rating of the Series 1999 Bonds and the Outstanding Parity Bonds then in effect by each of the rating agencies then rating the Series 1999 Bonds and the Outstanding Parity Bonds. For purposes of determining if the amount on deposit in the Reserve Fund equals the Reserve Requirement, any Credit Facility shall be deemed to be a deposit in the face amount or stated amount of such Credit Facility, less any unreimbursed draws or other amounts not reinstated under such Credit Facility. Any such withdrawn moneys will be transferred, at the election of the City, to the Acquisition Fund, to the Redemption Account in the Payment Fund, to the Principal Account of the Payment Fund or to a special account to be established for the payment of any fees in connection with obtaining such Credit Facility.

To the extent that the Reserve Fund is comprised of both funds on deposit and a Credit Facility, as will be the case upon the initial issuance of the Series 1999 Bonds, withdrawals from the Reserve Fund shall be made first from funds on deposit and then from the Credit Facility. To the extent that the Reserve Fund is replenished by the City, the amount so replenished shall be credited first to funds on deposit in the Reserve Fund and then to any Credit Facility. To the extent that replenishment funds are credited to the Credit Facility, the Trustee shall pay the same to the provider of the Credit Facility in lieu of retaining such funds in the Reserve Fund, conditioned upon reinstatement of the Credit Facility for the amount so paid.

In the event the provider of a Credit Facility makes payments to the Trustee as part of the Reserve Requirement, the provider shall become subrogated to the rights of the recipients of such payments, but such right of subrogation shall be subordinate to the rights of the provider of any policy of municipal bond insurance which has been drawn upon for payment of principal or interest on the Series 1999 Bonds or Outstanding Parity Bonds.

Outstanding Parity Bonds

The City has incurred Parity Obligations in the outstanding principal amount of \$818,760,000 in connection with the Series 1993 Bonds, the Series 1995 Bonds and the Series 1997 Bonds issued by the Authority on October 12, 1993, December 13, 1995 and February 26, 1997, respectively, for the purpose of financing the costs of certain improvements relating to the Metropolitan System and the Municipal System. The Series 1993 Bonds were issued in the original aggregate principal amount of \$250,000,000, of which \$228,805,000 is currently outstanding. The Series 1995 Bonds were issued in the original aggregate principal amount of \$350,000,000, of which \$343,860,000 is currently outstanding. The Series 1997 Bonds were issued in the original combined principal amount of \$250,000,000, of which \$246,095,000 is currently outstanding.

Parity Obligations

The City may not create any Obligations the payments of which are senior or prior in right to the payment by the City of Parity Obligations. The City may at any time and from time to time issue or create any other Parity Obligations, so long as no Event of Default under the Installment Purchase Agreement has occurred and is continuing and no event of default or Termination Event under any Qualified Swap Agreement has occurred and is

continuing, and provided the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(i) the Net System Revenues as shown by the books of the City for any 12 consecutive month period out of the 18 consecutive months ending immediately prior to the incurring of such additional other Parity Obligations shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations Outstanding during such period; and

(ii) the estimated Net System Revenues for the next 12 months following the date of issuance of such other Parity Obligations will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which will be Outstanding immediately after the issuance of the proposed Parity Obligations.

The certificate or certificates with respect to clause (ii) above will not be required if, among other things, the Parity Obligations being issued are for the purpose of refunding: (a) then Outstanding Parity Obligations if at the time of the issuance of such Parity Obligations a certificate of an Authorized City Representative is delivered showing that Debt Service in each fiscal year on all Parity Obligations Outstanding after the issuance of the refunding Parity Obligations will not exceed the Debt Service in each corresponding fiscal year on all Parity Obligations Outstanding prior to the issuance of such Parity Obligations; or (b) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of the refunding Parity Obligations (without regard to amounts thereof which after issuance are to be accreted) does not exceed the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness. For additional information relating to the terms and conditions for the issuance of the Parity Obligations, see APPENDIX C -- "DEFINITIONS OF CERTAIN TERMS" and APPENDIX D -- "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Subordinated Obligations

The City may issue and incur Subordinated Obligations which are payable from Net System Revenues on a basis subordinate to the payment by the City of the Installment Payments so long as no Event of Default has occurred and is continuing and no event of default or Termination Event under any Qualified Swap Agreement has occurred and is continuing.

SPECIAL CONSIDERATIONS FOR BONDHOLDERS

In connection with the purchase of the Series 1999 Bonds, prospective investors should give special consideration to the following:

1. See "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements" for information regarding a five year waiver from the secondary sewage treatment requirements of the Clean Water Act, Public Law 92-500 (the "Clean Water Act") which the City has received, the consequences of the waiver not being extended and the legislative amendments that the City will seek to obtain to The Ocean Pollution Reduction Act of 1994 ("OPRA").

2. See "WASTEWATER SYSTEM -- Metropolitan System Facilities" for information regarding the construction of the Metropolitan Biosolids Center at the Miramar Naval Air Station leased to the City from the United States Navy to replace the sludge processing facilities previously located at Fiesta Island. If the City defaults under the lease or in the event of a national or military emergency, the City would be obligated to vacate the Miramar Naval Air Station and relocate the Metropolitan Biosolids Center elsewhere.

3. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS -- Year 2000 Computer Issues" for information regarding the City's current efforts with respect to Year 2000 computer issues.

THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement, dated May 14, 1991, as amended to date between the City and the Redevelopment Agency of the City. The Authority is intended as a financing vehicle for City facilities and projects. The Authority has no taxing power.

WASTEWATER SYSTEM

The Wastewater System

The Wastewater System consists of the Municipal System, which is a municipal sewage collection system for the City's residents, and the Metropolitan System, which is a regional sewage collection, treatment and disposal system initiated in 1958 (and operational since 1963) to serve the City and various other public agencies including cities situated within common drainage areas. The Metropolitan System was designed to provide sufficient capacity to accommodate a regional population of 2,600,000. The City, as operator of the Metropolitan System, is the holder of the National Pollutant Discharge Elimination System ("NPDES") permit and is responsible for maintaining the discharge requirements required under Federal law. The Metropolitan System, as presently designed, provides advanced primary treatment of sewage at its Point Loma Wastewater Treatment Plant and tertiary treatment of sewage at its North City Water Reclamation Plant. See "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Standards" for information regarding the waiver from secondary treatment standards of the Clean Water Act which the City received in 1995 and which expires in November 2000.

The map which follows the Table of Contents of this Official Statement shows the sewer service area boundaries of the Wastewater System which covers approximately 450 square miles, including most of the City.

Wastewater System Management

The Metropolitan Wastewater Department of the City of San Diego (the "MWWD") manages the Metropolitan System and on July 1, 1996 also assumed management of the Municipal System. For the fiscal year ending June 30, 1999, the MWWD has a \$463 million budget and expects to employ approximately 907 employees.

The MWWD operates the Wastewater System with funds derived primarily from service charges which are deposited in the Sewer Revenue Fund. The Sewer Revenue Fund was established by amendment to the City Charter on November 8, 1960. Funds in the Sewer Revenue Fund are used for the operation, maintenance and capital improvement of the Municipal System and Metropolitan System.

Municipal System Facilities

The Municipal System is comprised of 2,544 miles of trunk and collector mains, 82 sewer pump stations and 14 storm water interceptor pump stations serving in excess of 250,000 customer accounts. On average, these accounts (of which 82% are single-family dwellings, 12% are multi-family dwellings, and the remaining 6% are commercial and industrial customers) generate 138 million gallons per day ("mgd") of wastewater which is conveyed by the Municipal System to the Metropolitan System for treatment and disposal.

The Municipal System also includes the San Pasqual Water Reclamation Plant which has a production capacity of 1 mgd of reclaimed water and was formerly operated by the City's Water Department. The San Pasqual Water Reclamation Plant was transferred to MWWD on July 1, 1997. The San Pasqual Water Reclamation Plant takes a portion of the influent from the Rancho Bernardo area of San Diego via Pump Station 77 and treats the influent to tertiary standards then further demineralizes the product to meet the total dissolved salts standards for the San Pasqual Valley. Three agricultural type businesses are served by the San Pasqual Water Reclamation Plant. Excess effluent and brine from the demineralization process is pumped back to Pump Station 77 and from there to the City of Escondido's Hale Avenue Wastewater Treatment Plant.

The Wastewater System Capital Improvement Program contemplates appropriations of \$409.0 million for Municipal System facilities during the eight fiscal years ending June 30, 2006. The proceeds of the Series 1999B

Bonds will be used to finance improvements to the Municipal System. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

Metropolitan System Facilities

The current Metropolitan System infrastructure, with the exception of the South Metro Interceptor, is located within the jurisdictional boundaries of the City and is concentrated along a kidney shaped corridor running from Mission Bay to the north, and along the perimeter of the San Diego Bay to the south. The map which follows the Table of Contents of this Official Statement shows the geographic concentration of the Metropolitan System's infrastructure and identifies the major trunk lines which service the Participating Agencies. The Wastewater System Capital Improvement Program contemplates appropriations of \$510.8 million for Metropolitan System facilities during the eight fiscal years ending June 30, 2006. The proceeds of the Series 1999A Bonds will be used to finance improvements to the Metropolitan System. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM." Based upon the outcome of the City's efforts to obtain certain legislative amendments to OPRA, this amount may increase by as much as \$366 million. See "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements."

The Metropolitan System's infrastructure currently consists of two wastewater treatment plants, two ocean outfalls, a biosolids center, two pump stations and force mains and gravity flow interceptors. A brief description of the current facilities and their primary functions is provided below.

Point Loma Wastewater Treatment Plant. The Point Loma Wastewater Treatment Plant (the "Point Loma Plant") is the principal treatment facility in the Metropolitan System, with a permitted treatment capacity of 240 mgd average daily flow. The Point Loma Plant currently provides advanced primary treatment of sewage in accordance with a waiver from the secondary treatment standards of the Clean Water Act which the City received in 1995 and which expires in November 2000.

The Point Loma Plant began operation in 1963. The site is part of the Fort Rosecrans military reservation and was acquired by the City from the U.S. Department of the Interior, Bureau of Land Management. From 1963 to 1985, the Point Loma Plant functioned as a primary treatment plant; gravity separation was used to reduce suspended solids levels by 60% prior to ocean discharge. In 1985, the Point Loma Plant was equipped to use chemical coagulants to achieve 75% suspended solids removal. In 1997, the Point Loma Plant achieved suspended solids removal rates in the 82-85% range through the use of enhanced chemical treatment.

The wastewater treatment process currently employed at the Point Loma Plant consists of advanced primary treatment and includes mechanical screening by which raw wastewater flows into the Point Loma Plant through five 15 millimeter mesh, mechanically self-cleaning traveling screens, and the addition of chemical coagulants to enhance settling to achieve at least 80% removal of suspended solids, sedimentation, and sludge digestion. A digester gas utilization facility is also a part of the Point Loma Plant. Dewatering and disposal of sludge are provided at the Metropolitan Biosolids Center (described below).

Several capital improvement projects have been completed at the Point Loma Plant to rehabilitate, modify and expand various components, and additional capital improvements are planned. In August 1994, a capital improvements master plan for the Point Loma Plant was approved that resulted in the build out of the facility to its current maximum hydraulic capacity of 240 mgd. Recently completed capital improvements include construction of two new sedimentation basins for a total of twelve basins, construction of a new effluent channel to all of the sedimentation basins, repair and modernization of two of the six digesters and two additional digesters. Ongoing capital improvements to the Point Loma Plant are included in the Wastewater System Capital Improvement Program described herein. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

North City Water Reclamation Plant. The North City Water Reclamation Plant (the "North City Plant") is a sewage treatment facility providing up to tertiary treatment which commenced operations in September 1997 at its location adjacent to Interstate 805 and Miramar Road in the northwestern quadrant of the City. The North City Plant receives effluent through the recently completed North City Tunnel Connector. The North City Plant process includes screening, grit removal, settling, flow equalization, activated sludge processing, tertiary filtration and effluent disinfection. Support facilities include an administration building, operation and maintenance building and chemical building. The North City Plant has a permitted capacity of 30 mgd average daily flow and is producing 3.3

mgd of reclaimed water each day. The reclaimed water is distributed to users through a reclaimed water distribution system operated by the City's Water Department. Revenues from the sale of reclaimed water will be transferred to the City's Water Department for deposit in the Water Fund and used to pay for the cost of the reclaimed water distribution system and then operations and maintenance costs for the distribution system. Any revenues in excess of these amounts will be returned to the MWWD for Metropolitan System costs.

Point Loma Plant Ocean Outfall. The Point Loma Plant Ocean Outfall was constructed in 1963 to provide a method for disposal of all Point Loma Plant effluent. The original capacity of the 11,316-foot long, 108-inch diameter outfall has been estimated at 390 mgd under the original design configuration. The City commenced construction in 1992 of a 12,500-foot extension of the original outfall (the "Point Loma Plant Ocean Outfall Extension"). The Point Loma Plant Ocean Outfall Extension was completed in November 1993 resulting in a 4.5-mile long outfall discharging treated sewage effluent at a depth of 320 feet of water. It is one of the longest, deepest ocean outfalls in the United States. In January 1998, additional ballasting of the original section of the outfall was completed to provide additional stability on the seabed.

South Bay Ocean Outfall. The South Bay Ocean Outfall, an outfall running seaward from the Tijuana River Valley, was constructed under the auspices of the International Boundary and Water Commission (the "IBWC") and the City, and completed in December 1998. The City was construction manager on the project and has a 39.9% ownership interest in the outfall or approximately 133 mgd of the peak flow capacity of 333 mgd. The 3.5-mile long outfall is now handling flows from Tijuana, Mexico processed through the IBWC's primary treatment facility in the Tijuana River Valley. The outfall will eventually accept flows from the Metropolitan System's South Bay Water Reclamation Plant and the South Bay Wastewater Treatment Plant. For more information, see "WASTEWATER SYSTEM FINANCIAL OPERATIONS -- Operations and Maintenance Expenses for Tijuana Effluent."

Metropolitan Biosolids Center. The Metropolitan Biosolids Center commenced operations in April 1998 on a leased site within the Miramar Marine Corps Air Station located off Highway 52 in the north central portion of the City. The facility is composed of anaerobic digestors, storage tanks, screening and degritting polymer injectors, eight dewatering centrifuges, five thickening centrifuges, a state of the art odor control facility, chemical building, operations and maintenance building and a privately operated cogeneration facility serving the energy needs of both the Metropolitan Biosolids Center and the North City Plant. The facility digests sludge from the North City Plant that is received through the North City Raw Sludge Pipeline. The facility mechanically dewateres the North City Plant digested sludge and sludge digested at the Point Loma Plant and pumped to the facility through a 17-mile long digested sludge pipeline. Completion of the Metropolitan Biosolids Center allowed the City to close its mechanical dewatering and air sludge drying facility on Fiesta Island located in Mission Bay, thereby bringing the City into compliance with the California Coastal Commission's direction and returning 106 acres for recreational use. A Coastal Commission assessment of \$1.5 million per year also ended in April 1998 after completion of this facility.

The site of the Metropolitan Biosolids Center is leased from the United States Navy under a 50-year lease (1995-2045). The lease permits the Navy to terminate the lease during its term without the payment of any compensation to the City without cause only in the event of a national or military emergency or with cause if the City were to fail to cure any breaches within 30 days notice from the Navy. If the lease were terminated during its term by the Navy, the City would be obliged to vacate the site and relocate this facility elsewhere. The existence of this facility is an essential part of the waiver from secondary treatment requirements received by the City described under the caption "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements."

A for-profit enterprise operates a cogeneration facility at the Metropolitan Biosolids Center. Under the agreement with the cogeneration operator, the City bears the risk of loss of the value of these facilities of the cogeneration operator should the City's lease with the Navy be terminated. At the option of the City, the value of the facilities is calculated as either a "stipulated purchase price" or as the "fair market value" of the facilities, as each of these terms are defined in the agreement with the for-profit operator. The maximum amount of exposure to the City for the loss of these facilities is \$28 million, but such a loss would only arise upon the occurrence of a default by the City or a national or military emergency sufficient to cause the Navy to terminate the lease.

The MWWD has considered a number of alternatives for the disposal of biosolids. At this time, the most cost effective alternative is landfill disposal. The MWWD will continue to periodically evaluate the economics of

other beneficial alternatives such as composting, direct land application, and a for-profit enterprise to produce agricultural fertilizer pellets.

Pump Stations. The two pump stations began operation in 1963. The pumping facilities are in good condition, and all structures, including wet wells, are expected to last at least another 25 years. No major modifications or improvements are anticipated except for installation of additional new pumps and motors and overhauls of existing pumps and motors, as needed.

Interceptors. The Metropolitan System interceptors consist of two major branches, the South Branch and the North Branch, which meet at Pump Station No. 2. Interceptor capacities are normally adequate for current peak flow, but in the near future some interceptor sections may be subject to peak flows that exceed design capacities. The first two phases of improvements to the interceptors were completed in May 1998. Under the Wastewater System Capital Improvement Program, it is contemplated that appropriations of \$29.1 million will be made for interceptors during the eight fiscal years ending June 30, 2006 to address these future capacity needs. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM -- Capital Improvement Projects -- Metropolitan System -- Major Interceptors (North and South)" for a description of the proposed improvements to the interceptors.

Additional Contractual Capacity Through the Escondido Wastewater Treatment Plant

In addition to the Metropolitan System facilities described above, the City in 1972 entered into a sewage disposal agreement with the City of Escondido, whereby up to 5 mgd of sewage emanating from the Rancho Bernardo sewer service area of the City, may be treated at Escondido's Hale Avenue treatment plant. This agreement runs for 50 years (1972-2022), and at the City's option may be extended for an unlimited number of ten year periods. The Escondido Wastewater Treatment Plant is not owned by the City and is not part of the Metropolitan System.

Historical Wastewater System Flow

Table 2 below shows total annual system flow through the Point Loma Plant and the Escondido Wastewater Treatment Plant.

Table 2
TOTAL ANNUAL WASTEWATER SYSTEM FLOW IN MILLION GALLONS

Fiscal Year Ended June 30	City Flow through Point Loma Plant	Participating Agency Flow through Point Loma Plant	City Flow through Escondido Plant	Total System Flow	Average MGD For The Year
1965	16,440	6,703	420	23,563	65
1970	19,950	9,658	709	30,317	83
1975	26,125	13,269	562	39,956	109
1980	36,708	17,572	944	55,224	151
1985	39,397	20,246	1,218	60,861	167
1990	48,628	20,836	1,405	70,869	194
1991	45,602	19,218	1,365	66,185	181
1992	46,030	18,115	1,177	65,322	179
1993	48,680	20,092	1,318	70,090	192
1994	45,043	19,111	1,310	65,464	179
1995	46,802	19,724	1,321	67,847	186
1996	46,848	19,115	1,325	67,288	184
1997	47,326	20,048	1,252	68,626	188
1998	50,619	21,109	1,509	73,237	201

For the fiscal year ended June 30, 1998, the Metropolitan System (197 mgd) and the Escondido Plant (4 mgd) on a daily basis treated and disposed of more than 201 million gallons of sewage per day generated by approximately 1.9 million residents and businesses within the Metropolitan System service area and the Rancho Bernardo service area.

The Participating Agencies and the Regional Wastewater Disposal Agreement

The Metropolitan System provides "wholesale" treatment services, including some sewage transportation, treatment and disposal operations to the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City and Poway, and the Winter Gardens Sewer Maintenance District, the Lakeside Alpine Sanitation District, the Spring Valley Sanitation District, the Otay Water District and the Padre Dam Municipal Water District (collectively, the "Participating Agencies") pursuant to the Regional Wastewater Disposal Agreement, effective June 24, 1998 (the "Regional Wastewater Disposal Agreement"). The Regional Wastewater Disposal Agreement replaces separate sewage disposal agreements between the City and each of the Participating Agencies that were entered into as early as 1960. The execution of the Regional Wastewater Disposal Agreement ended a dispute between the City and certain of the Participating Agencies and resulted in the City recognizing the release to the Sewer Revenue Fund in 1997 of \$26,718,415 for payments paid by the Participating Agencies under protest in fiscal years 1995 and 1996.

The Participating Agencies and the City are responsible for the "retail" collection operations within their respective jurisdictions. The Participating Agencies also transport collected sewage through large trunk lines to the Metropolitan System. The collection systems and many of the transport trunk lines are owned by the individual Participating Agencies.

Key provisions of the Regional Wastewater Disposal Agreement include:

Term of Regional Wastewater Disposal Agreement. The Regional Wastewater Disposal Agreement expires on December 31, 2050. On or before December 31, 2040, the parties shall begin discussions on an agreement to provide wastewater treatment services beyond the year 2050.

Ownership and Operation of the Metropolitan System. The City has full ownership of the Metropolitan System, including all additions to the Metropolitan System and facilities constructed pursuant to the Regional Wastewater Disposal Agreement. The City, in consultation with the Metro Commission described below, has the right to make all decisions with respect to the planning, design, construction, operation and maintenance of the Metropolitan System.

System of Charges. The Participating Agencies agree to pay the City a Sewer System Charge, Existing Capacity Charge and New Contract Capacity Charge. The Sewer System Charge is an annual calculation, billed quarterly and based on flow and strength coming into the Metropolitan System. The Existing Capacity Charge is an annual assessment through February 1, 2003 based on the amount of previously contracted capacity. The New Contract Capacity Charge is an amount agreed to be paid by any Participating Agency for the right to discharge any new or additional capacity into the Metropolitan System beyond its existing allotted capacity.

Payment for Metropolitan System Facilities. All parties agree to proportionate payment based on flow and strength for all facilities, including water reclamation facilities (but excluding any water reclamation distribution pipelines), necessary to expand the Wastewater System as specified in the Regional Wastewater Disposal Agreement. The facilities listed in the Regional Wastewater Disposal Agreement include all facilities required to comply with the Clean Water Act and OPRA. See "ACTIONS UNDER THE CLEAN WATER ACT."

Maintenance and Operations Costs. All parties agree to proportionate payment of operation and maintenance costs of all Metropolitan System facilities based on their proportionate flow in the Metropolitan System and the strength of their wastewater.

Limitation on Types and Condition of Wastewater. Each Participating Agency will comply with all applicable laws, rules and regulations including its regulatory obligations associated with the discharge of wastewater into its respective system and from such system into the Metropolitan System. Enforcement responsibilities, however, are not specified. The Regional Wastewater Disposal Agreement does not affect the validity of the existing interjurisdictional pretreatment agreements (dealing with responsibility for regulating industrial waste) or the separate transportation agreements (dealing with charges for conveyance of wastewater from Participating Agency collection systems to the Metropolitan System through City owned trunk lines).

Right of First Refusal For Sale of Metropolitan System. The City shall not sell or agree to sell the Metropolitan System without first offering it to the Participating Agencies (including a Participating Agency, a group of Participating Agencies or a third party representing one or more Participating Agencies). If the City transfers ownership of the Metropolitan System, the City's successor shall be bound by the terms of the Regional Wastewater Disposal Agreement. See "SECURITY FOR THE SERIES 1999 BONDS -- Possible Transfer of Ownership of Metropolitan System."

Metro Commission. The Metro Commission consists of one representative from each Participating Agency and is created to advise the City on matters affecting the Wastewater System. Although the Metro Commission may make recommendations to the City, the City retains ownership and decision-making authority over all elements of the Metropolitan System.

Dispute Resolution. Disputes between the City and any Participating Agency are subject to mediation and arbitration; however, all payments must be maintained without interruption.

Reclamation of Water. The Regional Wastewater Disposal Agreement also provides that revenue from the sale of reclaimed water from the North City Plant will be transferred to the City's Water Department for deposit in the Water Fund and used to pay for the cost of the reclaimed water distribution system and then operation and maintenance for the distribution system. Any revenues in excess of these amounts will be returned to the MWWD for Metropolitan System costs. Except for the foregoing, all compensation from the sale of Metropolitan System

byproducts, including reclaimed water, are Metropolitan System revenues and are used to offset operation and maintenance costs.

For the fiscal year ended June 30, 1998, out of a total average daily sewage flow of 196.52 million gallons, the total City flow through the Metropolitan System was 138.68 million gallons, or 70.57% of the total flow. This overall proportion of the flow from the City and from the Participating Agencies is expected to continue.

The Participating Agencies in the Metropolitan System are listed in the following table, together with the estimated population, present capacity rights (in mgd), and the percentage of total capacity represented by the capacity rights. The communities and agencies served by the Wastewater System form the second largest integrated metropolitan area in the State of California surpassed only by the Los Angeles metropolitan area.

Table 3
METROPOLITAN SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 1998

<u>Participating Agencies</u>	<u>Estimated Population⁽¹⁾</u>	<u>Capacity Rights (in mgd)</u>	<u>% of Total Capacity</u>	<u>Flow (mgd)⁽⁴⁾</u>	<u>% of Total Flow</u>
City of Chula Vista ⁽²⁾	153,400	19.843	8.268%	9.74	4.96%
City of Coronado	29,300	3.078	1.283	2.56	1.30
City of Del Mar	5,200	0.821	0.342	0.68	0.35
City of El Cajon	93,400	10.260	4.275	8.47	4.31
City of Imperial Beach	28,350	3.591	1.496	2.12	1.08
City of La Mesa	57,500	6.464	2.693	5.31	2.70
City of Lemon Grove	25,200	2.873	1.197	1.79	0.91
City of National City	54,900	7.141	2.975	3.62	1.84
City of Poway	46,150	5.130	2.138	4.18	2.13
Lakeside Alpine Sanitation District ⁽³⁾	31,994	4.586	1.911	3.50	1.78
Otay Water District	28,000	1.231	0.513	0.37	0.19
Padre Dam Municipal Water District	127,903	6.382	2.659	4.10	2.09
Spring Valley Sanitation District	74,514	10.978	4.574	10.38	5.28
Winter Gardens Sewer Maintenance District	<u>9,246</u>	<u>1.241</u>	<u>0.517</u>	<u>1.01</u>	<u>0.51</u>
SUBTOTAL	765,057	83.619	34.841	57.83	29.43
City of San Diego	1,202,500	156.381	65.159	138.69	70.57
TOTAL:	1,967,557	240.000	100.000%	196.52⁽⁵⁾	100.00%

(1) Source: Participating Agencies and California Department of Finance.

(2) Includes Montgomery Sanitation District.

(3) A single meter serves the sanitation districts of Lakeside and Alpine.

(4) Average for fiscal year. Not adjusted for flows between individual Participating Agencies.

(5) Total flow in Table 3 (196.52 mgd) differs from Table 2 (201 mgd) because Table 2 includes 4 mgd of City flow through the Escondido Wastewater Treatment Plant.

As the foregoing table illustrates, the Participating Agencies are currently not utilizing all of their capacity rights for sewage treatment and disposal.

WASTEWATER SYSTEM REGULATORY REQUIREMENTS

General

The Wastewater System is subject to regulations imposed by the Clean Water Act. The regulatory requirements are administered by the United States Environmental Protection Agency (the "EPA"), the California State Water Resources Control Board (the "State Board") and the San Diego Regional Water Quality Control Board (the "Regional Board"). Regulations of these agencies deal primarily with the quality of effluent which may be discharged from the Wastewater System, the disposal of sludge generated by the Wastewater System, the discharge of pollutants into groundwater, and the nature of waste material (particularly industrial waste) discharged into the collection system. The Point Loma Plant functions as an advanced primary treatment plant and the North City Plant functions as a tertiary treatment plant under the Clean Water Act.

On November 9, 1995, the City received from the EPA a five-year waiver of the secondary treatment requirements for the Point Loma Plant based on the successful implementation of certain requirements contained in OPRA. See "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements" for information regarding the extension of the waiver and the possible legislative amendments to OPRA. The waiver allowed the City to obtain a modified NPDES permit. The City must operate the Wastewater System according to the discharge limitations set forth in its NPDES permit in order to comply with federally mandated effluent quality and disposal criteria. The NPDES permit and the waiver both expire on November 9, 2000 and the City will need to apply for successive five-year extensions in order to continue to be exempt from the secondary treatment standards of the Clean Water Act.

To comply with other federal regulations concerning the discharge of waste materials into the Wastewater System, the City must administer and enforce industrial pretreatment limitation standards upon industrial users of the Wastewater System. The City has had an industrial waste program in effect since the early 1970s. The City's industrial waste ordinance sets forth water quality standards that industrial users must meet and provides enforcement procedures for violators. The Industrial Waste Division of the MWWDD is currently responsible for monitoring an average of 1,000 permitted industries located in the Metropolitan System service area. In addition, each Participating Agency is required to permit and monitor all industries within its respective service area. While each Participating Agency as a condition of the Regional Wastewater Disposal Agreement is required to comply with quality standards set by the City, the City, at the urging of the EPA, has required separate pretreatment agreements with each Participating Agency to ensure industrial pretreatment requirements are met. All Participating Agencies have entered into such pretreatment agreements.

As a condition of having received federal EPA grant funds under the Clean Water Act for the planning and construction of various improvements to the Wastewater System, the City is subject to additional regulatory requirements. For example, a federal EPA grant of approximately \$76 million that the City received and used for the construction of the North City Plant provides that the City shall attempt to meet the goal of beneficial reuse of 25% of the flows treated at the North City Plant by December 31, 2003 and 50% by December 31, 2010. The goal of 25% beneficial reuse by 2003 can be achieved by the existing reclaimed water distribution system that is owned and operated by the City's Water Department. The City is currently evaluating the various alternatives for compliance with the goal of 50% beneficial reuse by 2010. If the City were found by the EPA to have not met the conditions of this grant or any other federal EPA grants, the City could be required to return the grant moneys to the EPA.

Among other grant-related requirements are guidelines which must be followed concerning planning methodologies, design criteria, construction activities, and the operation, maintenance and financing of facilities. As another condition of its past receipt of federal grants, the State Board, as the delegate of the EPA, must approve the sewer service charge structures of the City and the Participating Agencies. Such service charge structures require the recovery of annual operations, maintenance and replacement costs from users of the system in a proportionate manner according to the customer's level of use. Such factors as volume, infiltration/inflow, delivery flow rate, and strength of sewage are to be considered for determining proportionate use. Sewer service charge rates for all retail users are reviewed annually and established at a level necessary to generate sufficient revenues to recover the annual operations, maintenance and replacement costs. Sewer service charge rates for users are established to recognize the volume and strength characteristics of wastewater contributed to the Wastewater System. The City's rate structure

has been reviewed by the State Board and no grant funds or costs under grant funded programs have been disallowed based on the nature of the rate structures.

In addition to federal requirements, the City must also comply with water quality based effluent State requirements, otherwise known as the State Ocean Plan. Another State law concerned with control of water quality is the Porter-Cologne Water Quality Control Act of 1969, as amended. The Porter-Cologne Act directly addresses the problem of water reclamation and reuse. A declared policy of the law is that the people of the State of California have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements. The legislative intent was to undertake all possible development of water reclamation facilities to make reclaimed water available for use. The law requires the State Department of Health Services to establish statewide reclamation criteria for each type of use where such use involves public health. The City's proposed water reclamation projects are subject to the Porter-Cologne Act and are being designed in consultation with State officials to comply with its requirements.

The City believes that it is in compliance with all federal and state laws relating to the Wastewater System.

Certain Compliance Actions and Other Litigation

On February 8, 1996, the Regional Board accepted a proposal offered by the City to resolve all outstanding enforcement and liability issues relating to alleged sewer overflows involving the Wastewater System and inadequate reporting of such events. Without admitting any liability for pending issues related to sewer overflows and reporting, the City agreed to a cash payment of \$350,000 and approximately one million dollars total in environmental credit projects extending over five years, from 1996 to 2001. This settlement resulted in a full satisfaction of all issues between the City and the Regional Board through the date of settlement. To date, all requirements of the settlement have been met and there are no pending complaints involving the City before the Regional Board.

The City is not presently involved in nor has received notice of any claim pertaining to regulation relief.

ACTIONS UNDER THE CLEAN WATER ACT

General

In 1972, Congress enacted the Clean Water Act, which among other things, directs the EPA to monitor and to regulate the discharge of pollution into navigable water ways and to enforce the requirement that all wastewater treatment plants in the nation provide full secondary treatment for sewage. In 1977, Congress amended the Clean Water Act to allow waivers of secondary treatment standards for certain ocean discharges. In September 1979, the City submitted an application to the EPA for a waiver from the secondary treatment standards based upon the EPA's proposed waiver regulations. The EPA tentatively approved the City's waiver application in September 1981. A revised waiver application incorporating updated flow projections was submitted to the EPA in November 1983. However, in September 1986, the EPA reversed its tentative approval of the City's 1979 waiver application and tentatively denied the City's 1979 and 1983 applications. In February 1987, the City Council decided to discontinue its efforts to obtain a waiver. However, see "Relief From Secondary Treatment Requirements" below for information regarding the waiver from secondary treatment standards of the Clean Water Act which the City received in 1995 and which expires in November 2000.

Litigation and Final Order

In July 1988, the United States of America, acting through the Department of Justice and the EPA, and the State of California filed suit against the City in U.S. District Court for alleged violations of the Clean Water Act, its NPDES permit, sewer overflows, and alleged irregularities in the City's pretreatment program that regulates industrial waste. The plaintiffs sought injunctive relief and monetary damages for alleged effluent limit violations, failure to meet secondary treatment standards, past sewer spills, and pretreatment violations. The lawsuit was divided into a penalty proceeding and a remedies proceeding.

Penalty Proceeding. In the penalty proceeding, the District Court found the City in violation of the Clean Water Act as a result of deficiencies in its pretreatment program (control of industrial users), frequent spills from the collection system, and the absence of secondary treatment. In June 1991, the District Court imposed a penalty of \$3,000,000; \$500,000 was payable to the U.S. Treasury on entry of judgment, with the remaining \$2,500,000 to be satisfied by means of an optional credit project. The City has fully satisfied these penalties.

Remedies Proceeding. Beginning in 1988, in order to settle the remedies aspect of the case, the City commenced the design of a plan to modify and enlarge the Metropolitan System to comply with the secondary treatment requirements of the Clean Water Act. The City also began discussions with the United States and the State of California to negotiate a Partial Consent Decree (the "Consent Decree"), which would resolve the City's obligations under the Clean Water Act to treat its effluent to secondary treatment standards. In October 1989, a program for full upgrade to secondary treatment was approved by the City. This proposal was called "Alternative IVa."

On January 30, 1990, the San Diego City Council approved the Consent Decree to accomplish the upgrade. The Consent Decree required construction of secondary treatment facilities (six water reclamation plants, one new secondary treatment plant and upgrade of the Point Loma Plant to secondary treatment capability), upgrade of the City's pretreatment of industrial waste program, spill reduction measures, and miscellaneous additional capital improvements. The costs of these improvements were estimated in 1992 to be approximately \$2.4 billion. The Consent Decree also required some improvements affecting only the Municipal System.

Subsequently, through a series of actions taken by the City and by the District Court, a different proposal, known as the "Consumers' Alternative," was approved and replaced Alternative IVa. First, the City sought and obtained a waiver from secondary treatment requirements of the Clean Water Act. See "Relief From Secondary Treatment Requirements" below. Second, under the Consumers' Alternative, the City proposed that there be permitted a modified and reduced wastewater treatment to eliminate five of six water reclamation plants contemplated by Alternative IVa and to preserve the Point Loma Plant at its existing level of advanced primary treatment. In September 1996, the City, the EPA and the Sierra Club, as intervenor, presented a Final Order to the District Court that resolved all remaining claims of the United States against the City for alleged violations of sewage overflow of the Clean Water Act and constituted a full and complete settlement of all outstanding claims for relief.

In the Final Order, in addition to the capital improvements previously agreed to and under design or construction, the City also agreed to: (i) provide a concrete sewer main replacement or rehabilitation program of at least 60 miles of concrete pipe by June 30, 2000; (ii) prepare a plan by March 30, 1998 for rehabilitation or replacement of the remaining concrete pipe (completed and submitted); (iii) prepare a sewer pump station and force main audit by June 30, 1997 (completed and submitted); (iv) expand its residential grease control education program by December 31, 1997 (completed and submitted); (v) improve information management on the collection system by June 30, 2000; and (vi) increase its root inhibitor allocation for 1997 and 1998 to \$300,000 per year (increased and implemented). Of the projects described in Table 4, approximately \$244 million or 27% of the capital improvement projects are required by the Final Order. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM." As of June 30, 1998, \$873.6 million have been spent on the construction of the capital improvement projects required by the Final Order.

The Final Order was executed by all parties and filed with the U.S. District Court. The U.S. District Court approved and entered the Final Order on June 6, 1997. Since its entry, the City has complied with all due dates for submission of reports and milestones provided for capital improvements. As entered, the Final Order is a court-supervised requirement to complete the wastewater upgrades listed therein. The Final Order did not require payment of any monetary damages. The Final Order contemplates supervision through June 30, 2003, at which time it may be terminated upon a showing of completion of all requirements.

Finally, intervenor Sierra Club petitioned for attorney fees for their eight year involvement and was awarded \$791,306 to be legally apportioned 75% the responsibility of the City and 25% the responsibility of the Federal Government. All parties have filed notices of appeal.

Relief From Secondary Treatment Requirements

As described above under "General," after eight years of efforts to obtain from the EPA a waiver from the secondary treatment standards contained in the Clean Water Act, the City discontinued its efforts to obtain a waiver in 1987. However, on October 31, 1994, the Clean Water Act was amended by OPRA to specifically permit the City to apply for a waiver of secondary treatment requirements from the EPA under certain conditions. These conditions require, among other things, that the City:

- (1) implement a wastewater reclamation program that would achieve a system capacity of 45 mgd of reclaimed wastewater per day by January 1, 2010;
- (2) remove not less than 80% of total suspended solids (on a monthly average) in the discharge of the Point Loma Plant;
- (3) remove not less than 58% of the biological oxygen demand ("BOD") (on an annual average) in the discharge of the Point Loma Plant; and
- (4) reduce the quantity of suspended solids discharged by the City into the Pacific Ocean over the five-year period of the waiver.

Subject to these conditions and others, the City filed an application with the EPA for a waiver in April 1995, and in August 1995, the EPA issued a tentative decision approving the waiver and a modified NPDES permit. On November 9, 1995, the EPA granted the City's request for a modified NPDES permit pursuant to a waiver. The NPDES permit and the waiver both will expire on November 9, 2000 and the City will need to apply for successive five-year extensions in order to continue to be exempt from the secondary treatment standards of the Clean Water Act.

The Wastewater System Capital Improvement Program contains the facilities necessary to achieve a system capacity of 45 mgd of reclaimed wastewater per day by January 1, 2010. In addition, in 1997, the Point Loma Plant achieved suspended solids removal rates in the 82-85% range through the use of enhanced chemical treatment. Accordingly, the City is satisfying the first two conditions of OPRA described above.

However, in connection with applying for the renewal of the waiver, the City will seek legislative amendments to reduce and clarify the third and fourth conditions of OPRA described above. First, with respect to condition (3) above, the City will seek legislative amendment to reduce the requirement of 58% removal of BOD to 30%, the level required of all other waiver holders. Second, with respect to condition (4) above, OPRA does not provide for the manner in which the baseline of the quantity of suspended solids is determined and therefore the reduction in such amounts is open to interpretation. If the baseline for this amount is the projected amount of suspended solids contained in the City's 1995 waiver application, the City will be able to show a reduction of these amounts at the end of the period of the waiver (November 9, 2000). If, instead, the baseline is the actual amount of suspended solids discharged in 1996 (the first year of the waiver), the City will most likely be able to show a reduction in 2000 but probably not at the end of the next waiver period in 2005. As a result, the City will seek a second legislative amendment to OPRA to replace the requirement of continual reduction over the five-year waiver period with a specific maximum amount or cap. The City believes that it has substantial scientific evidence and precedents with other waiver holders to support both amendments.

The City is in the process of preparing the necessary documents to apply for an extension of its waiver and will seek legislative amendments to the requirements of OPRA as described above. The application to renew the waiver must by law be submitted no later than 180 days prior to the expiration of the waiver. The City intends to submit the application in November 1999 (one year prior to the expiration of the waiver) as if the amendments to OPRA will be obtained. There is, however, no assurance that the EPA will grant additional waivers. Should the City not obtain an extension of its waiver and be required at some future date to upgrade the Wastewater System to provide secondary treatment discharge of wastewater, the cost to provide that service would be substantial. This requirement would reduce the capacity of the Point Loma Plant from 240 mgd to 180 mgd and the Wastewater System would be required to provide substantial additional capacity for the treatment of sewage. None of the costs for these upgrades are reflected in the projections contained under "FINANCIAL PROJECTIONS."

As described above, the current waiver is, and any renewal of the waiver would be, conditioned on the requirements of OPRA. The City will seek legislative amendments to OPRA as described above in order to reduce and clarify such requirements. The form of the legislation has not been finalized, and the legislation has not been introduced into Congress and there is no assurance that either or both amendments will be introduced or if introduced, that either amendment will be adopted. If the City is unable to obtain the legislative amendments to OPRA, the City plans to resubmit its application for a waiver under the existing requirements of OPRA. If the EPA denies the City's application for a waiver under the existing requirements of OPRA, the City believes that the EPA would grant an administrative extension to the existing waiver while the application for renewal of the waiver is reviewed at an administrative hearing and, if necessary, in a court of law.

If the City is unable to obtain the legislative amendments to OPRA, and if it is finally determined by a court of law or otherwise that the City's application for renewal of the waiver is denied, or in any event by no later than November 2001, the City will need to start construction of the first phase of the South Bay Wastewater Treatment Plant in order to complete its construction by 2005 instead of by later than 2010 as contemplated by the Wastewater System Capital Improvement Program, Table 4 and the financial projections contained in Table 14. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM -- Capital Improvement Projects -- Metropolitan System -- South Bay Wastewater Treatment Plant" and "FINANCIAL PROJECTIONS." The Wastewater System Capital Improvement Program and the financial projections contained in Table 14 assume that the legislative amendments to OPRA will be obtained and accordingly include only \$42.8 million of costs to be spent within the fiscal years ending June 30, 1999 and 2000. If the City is required to build the first phase of the South Bay Wastewater Treatment Plant and related facilities within the period ending June 30, 2006, approximately \$366 million will be added to the Wastewater System Capital Improvement Program for that period and these costs are not reflected in the projections contained under "FINANCIAL PROJECTIONS." Further, the City believes that it has approximately \$83.4 million of projects in the Wastewater System Capital Improvement Program that it could defer beyond the period ending June 30, 2006 in order to mitigate the financial effect of being required to construct the first phase of South Bay Wastewater Treatment Plant by 2006. In addition, construction of the second phase of the South Bay Wastewater Treatment Plant and related facilities would need to start with approximately \$426 million to be spent during the period from June 30, 2007 through June 30, 2010.

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

Background

As described above under "ACTIONS UNDER THE CLEAN WATER ACT," in July 1988 the City was sued for alleged violations of the Clean Water Act and certain other matters and was later required to improve the Wastewater System. As a result, the City embarked on a major capital improvement program for its Wastewater System in 1993. As of the date of this Official Statement, a number of major projects have been completed. For a description of the completed projects, see APPENDIX H -- "DESCRIPTION OF COMPLETED PROJECTS."

Currently, the Wastewater System Capital Improvement Program contains projects to upgrade the Municipal System and Metropolitan System. Certain of these projects have been added to the Wastewater System Capital Improvement Program since 1997. All of the Metropolitan System projects and the budgeting for the Municipal System projects are managed by the MWWD. The predesign, design, project cost estimating and construction management processes for the Municipal System projects, as well as other City-wide capital improvement projects, are managed by the Engineering and Capital Projects Department of the City. Table 4 shows the current contemplated projects for which expenditures will be made during the period July 1, 1998 through June 30, 2006.

See "FINANCIAL PROJECTIONS" for information on the City Council's recent direction to MWWD staff to form a citizen's review committee to work with the MWWD with a view to reducing sewer rates below those rate increases contained in the financial projections contained in Table 14 of 10% in March 2002 and 9% in March 2003. Moreover, see "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements" for the possible deferral of projects contained in the Wastewater System Capital Improvement Program. While the objective of reducing the magnitude of the rate increases projected for March 2002 and 2003

may be met through a combination of operational efficiencies, greater utilization of projected cash balances and commitment of rate stabilization reserves, it is possible that certain capital improvements contained in the Wastewater System Capital Improvement Program will be deferred until later years to accomplish that goal.

Table 4
EXPECTED WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM APPROPRIATIONS
(July 1, 1998 through June 30, 2006)

<u>Expected Projects</u>	<u>Estimated Amounts⁽¹⁾</u> <u>(In Millions)</u>
Metropolitan System Projects	
Point Loma Plant Upgrade	\$110.6
South Bay Sewer Conveyance System	113.3
South Bay Water Reclamation Plant	89.2
South Bay Wastewater Treatment Plant	26.3
Major Interceptors (North & South)	29.1
Mission Valley Water Reclamation Plant	16.2
Centrate Treatment Facility	12.1
Environmental Monitoring & Technical Services Lab	9.4
Other Metropolitan System Projects	<u>104.6</u>
Subtotal Metropolitan System Projects	510.8
Municipal System Projects	
Annual Allocations	\$293.1
Brine Management Program	48.1
Trunk and Interceptor Sewer Projects	47.4
Other Municipal System Projects	<u>20.4</u>
Subtotal of Municipal System Projects	409.0
TOTAL	\$919.8

(1) Reflects amounts expected to be appropriated during the period indicated without regard to the timing of expenditure of such amounts. See Table 5 for the timing of expenditures.

Capital Improvement Projects

1. Metropolitan System

Point Loma Plant Upgrade. The Point Loma Plant upgrade commenced in 1990, is 56% complete and is expected to be complete in the year 2001. Ongoing capital improvements include upgrade and expansion of the digester facility, upgrade to the chemical feed system and improvements to the headworks, odor control and grit removal systems completed in two stages over the time period shown in Table 4. A new maintenance building, operations building and warehouse facility will also be constructed during the time period shown in Table 4. Access to the Point Loma Plant will be improved with access road improvements and various site and parking improvements. Expansion of the Point Loma Plant is being implemented through construction of a series of projects that will not significantly disrupt wastewater flow during the construction period.

South Bay Sewer Conveyance System. The South Bay Sewer Conveyance System includes a pump station, force main and associated sewer pipelines to convey wastewater from the South Bay Wastewater Treatment Plant to the South Bay Water Reclamation Plant (discussed below). Table 4 includes construction and related costs of \$25.8 million. This project is expected to be completed in the year 2001. Also included in this category of projects is funding of \$16.5 million for design, environmental and land acquisition costs to secure a site for an additional pump station and related pipeline to serve the South Bay Wastewater Treatment Plant (discussed below) scheduled for construction after the year 2010. Preliminary estimates for the cost of this pump station and related

pipeline exceed \$100 million. Table 4 also includes \$71 million for environmental, design, land acquisition and construction for the System Flow Stabilization Project. Though average flows from the South Bay region are expected to remain within the capacity of the South Metro Interceptor (until construction of the South Bay Wastewater Treatment Plant) there are still possible spill situations (during peak flows along with unusual weather patterns) that led to the addition of the System Flow Stabilization Project to provide for the routing to and temporary storage of peak flows.

South Bay Water Reclamation Plant. The South Bay Water Reclamation Plant will provide up to tertiary treatment of sewage and is being built near the IBWC primary treatment facility in the Tijuana River Valley. Table 4 includes construction and related costs for completion of the South Bay Water Reclamation Plant of \$80.5 million and \$8.7 million in final construction and related costs for completion of a bridge that will provide access to the South Bay Water Reclamation Plant. The South Bay Water Reclamation Plant is planned to be completed by the year 2001 and will have a 7 mgd capacity. The source of funding for the reclaimed water distribution system has not yet been determined.

South Bay Wastewater Treatment Plant. The South Bay Wastewater Treatment Plant will provide secondary treatment of sewage and have a 21 mgd capacity. Table 4 includes design, environmental, engineering and permitting costs in the amount of \$26.3 million for the South Bay Wastewater Treatment Plant which is scheduled to be built after 2010 (total estimated cost for first phase of this project will be approximately \$366 million) on the same site as the IBWC primary treatment facility and South Bay Water Reclamation Plant. The construction of the South Bay Wastewater Treatment Plant will be required when growth in the area exceeds the requirements of OPRA for the Point Loma Plant and growth in flows exceeds the capacity of the South Metro Interceptor. The scheduling of construction of the South Bay Wastewater Treatment Plant after 2010 is dependent on the City's obtaining certain amendments to OPRA. See "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirement."

Major Interceptors (North and South). Table 4 includes accelerated scope of work (from 2004 to 1999) for design and construction work on the South Metro Interceptor to repair seven concrete manholes, a 65-foot steel access shaft and additional internal rehabilitation of the 108-inch pipe. The acceleration was deemed advisable given results of inspection of portions of the pipeline. Table 4 reflects additional design, construction and environmental mitigation costs related to the further rehabilitation of the North Metro Interceptor.

Mission Valley Water Reclamation Plant. The Mission Valley Water Reclamation Plant is intended to provide up to tertiary treatment of sewage and is to be located on land purchased at a cost of \$7 million from the Water Department in San Diego's Mission Valley on Camino Del Rio North east of the intersection of Interstates 8 and 805. Table 4 includes design, permitting, administrative and preliminary costs totaling \$16.2 million. A remaining \$115 million in construction and related costs is scheduled beyond the time period shown in Table 4 (beyond June 30, 2006). The Mission Valley Water Reclamation Plant is one of the system-wide options for providing the final 8 mgd of a 45 mgd total water reclamation system capacity by the year 2010 as required by the waiver described above under "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements." If this alternative to meeting the water reclamation requirements is selected, design would begin in 2004. Alternatively if another more operationally or cost preferable alternative is selected, this project would be closed out and the budget used to fund the preferred alternative project.

Centrate Treatment Facility. The Centrate Treatment Facility will treat centrate, which is the liquid removed during the dewatering of biosolids at the Metropolitan Biosolids Center. This project has been added to the Wastewater Capital Improvement Program since 1997. Table 4 includes design and initial construction costs for the Centrate Treatment Facility, which is estimated to have a completion cost of \$75.6 million. This treatment would assist the City in complying with the requirements of OPRA at the Point Loma Plant. This facility may not be built if the City obtains certain legislative amendments to reduce the requirements of OPRA. See "ACTIONS UNDER CLEAN WATER ACT -- Relief From Secondary Treatment Requirements."

Environmental Monitoring and Technical Services Laboratory. This project has been added to the Wastewater Capital Improvement Program since 1997. Table 4 includes the design and construction of Phase I of the project which includes a two story 34,000 square foot administrative and public support facility along with an ocean monitoring laboratory. Completion of the project is expected in 2010 at a cost of approximately \$30 million.

Other Metropolitan System Projects. Annual allocations in an aggregate amount of \$42 million for repair and upgrade of the Point Loma Plant, the North City Plant, the Metropolitan Biosolids Center and South Bay Water Reclamation Plant are included in Table 4. Table 4 also includes costs of \$36.8 million for the Wastewater Operations Management Network ("COMNET"), a system-wide standardized means of providing the Metropolitan System with process control and monitoring. COMNET includes plant support as well as system communications. In addition to this central COMNET project, each individual facility project has its own COMNET cost element for instrumentation and software specific to that facility. A pooled contingency for all of the Metropolitan System projects is also included in Table 4.

2. Municipal System

The rehabilitation and expansion of the Municipal System is included in the Wastewater System Capital Improvement Program. The projects include the replacement of deteriorated concrete sewer collector lines, rehabilitation of sewer pumping stations and construction of new interceptor lines and pump stations as described below. In addition, infrastructure of the Wastewater System Capital Improvement Program for the Municipal System also includes those projects required in the Final Order. The estimated cost of the projects required by the Final Order is \$171 million.

Annual Allocations. Annual allocations are included in a capital budget each year to cover projects that are not identified until after the beginning of the budget year. Table 4 includes \$176.7 million in appropriations for the annual allocation for sewer main replacements. Included in this figure are over 200 projects, including the \$171 million in projects required by the Final Order noted above, an allowance for additional sewer mains related to new development, and other replacement work identified by the MWWD's extensive sewer main televising program. Table 4 also includes costs for the annual allocation for emergency construction and the design, construction and related costs for 49 sewer pump station restorations under the annual allocation for sewer pump stations.

Brine Management Program. These projects provide the means to dispose of non-polluting industrial brine from the City's growing industrial park in the Rancho Bernardo area of the City without transporting it through costly treatment at the City of Escondido's Hale Avenue Treatment Plant. The three projects included in Table 4 include the design, construction and related costs for Brine Management Force Main and Pump Station and the construction and related costs of Brine Management Program Gravity Line and the City's portion of design and construction costs for the expansion of the San Elijo Outfall. The San Elijo Outfall is not owned by the City and is not part of the Wastewater System.

Trunk and Interceptor Sewer Projects. These projects provide for the replacement, rehabilitation, expansion, or construction of existing sewer lines and new sewer lines. These projects are typically larger and more expensive than projects funded through the annual allocations described above. Table 4 includes design, construction and related costs for sixteen stand-alone projects.

Other Municipal Projects. Table 4 includes costs for the replacement, expansion or construction of existing sewer pump stations and new pump stations. Table 4 also includes the costs to install energy efficient equipment at the San Pasqual Water Reclamation Treatment Plant and the costs to provide for the telemetry control system for the Municipal System. Also included in Table 4 are the final construction and related costs for the Metropolitan Operations Center Relocation project to complete the movement of the Collections Division equipment storage facility to an adjacent warehouse to allow space to further consolidate MWWD administrative support staff. Table 4 also includes a pooled contingency for all of the Municipal System projects.

Contract Disputes

From time to time, the City is engaged in disputes with contractors and subcontractors working on the Wastewater System Capital Improvement Program. Currently, there are a number of pending contract disputes with vendors or contractors that claim an aggregate amount of \$21 million.

CAPITAL IMPROVEMENT FINANCING PLAN

The projected Wastewater System Capital Improvement Program is funded by a combination of financing from Net System Revenues and debt financing. Table 5 summarizes the actual sources and uses of funds for the Wastewater System Capital Improvement Program for the fiscal year ended June 30, 1998 and the projected sources and uses of funds for the Wastewater System Capital Improvement Program for the fiscal years ending June 30, 1999 through June 30, 2006. The Wastewater System Capital Improvement Program includes the costs of the projects described in Table 4. If the City is obligated to provide secondary treatment at the Point Loma Plant or if the City does not obtain legislative amendments to reduce the requirements of OPRA, the capital costs of the Wastewater System Capital Improvement Program could be substantially increased. See "SPECIAL CONSIDERATIONS FOR BONDHOLDERS" and "ACTIONS UNDER THE CLEAN WATER ACT -- Relief From Secondary Treatment Requirements."

Table 5 also gives effect to the financial assumptions contained under the heading "FINANCIAL PROJECTIONS -- Projected Operating Results."

Table 5
SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES
WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
(In Thousands of Dollars)
Fiscal Years Ending June 30, 1999 to 2006

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Total⁽⁵⁾</u>	<u>1998 Actual Unaudited⁽⁶⁾</u>
SOURCE OF FUNDS										
Beginning Balance of Construction Fund	0	139,670	0	0	0	0	0	0	139,670	\$150,929
New Bond Issue ⁽¹⁾	298,176	0	146,168	78,968	66,208	69,863	80,308	53,192	792,883	0
Grant Receipts	0	0	0	0	0	0	0	0	0	12,498
Contributions in Aid	8,996	0	0	0	0	0	0	0	8,996	25,055
Surety Proceeds ⁽²⁾	56,549	0	0	0	0	0	0	0	56,549	0
Pay-as-You-Go	<u>43,015</u>	<u>46,556</u>	<u>70,318</u>	<u>30,237</u>	<u>25,350</u>	<u>26,750</u>	<u>30,750</u>	<u>20,367</u>	<u>293,343</u>	<u>66,014</u>
TOTAL SOURCES	406,736	186,226	216,486	109,205	91,558	96,613	111,058	73,559	1,291,441	\$254,496
USES OF FUNDS										
Issue Costs	8,945	0	4,385	2,369	1,987	2,096	2,409	1,596	23,787	0
Debt Service Reserve Fund	20,516	0	11,193	6,047	5,070	5,350	6,150	4,073	58,399	0
Reimbursement of Prior Capital Expenditures	0	0	0	0	0	0	0	0	0	0
Contribution to Construction Fund	139,670	0	0	0	0	0	0	0	139,670	0
Capital Expenditures ⁽³⁾⁽⁴⁾	<u>237,605</u>	<u>186,226</u>	<u>200,908</u>	<u>100,789</u>	<u>84,501</u>	<u>89,167</u>	<u>102,499</u>	<u>67,890</u>	<u>1,069,585</u>	<u>254,496</u>
TOTAL USES	406,736	186,226	216,486	109,205	91,558	96,613	111,058	73,559	1,291,441	\$254,496

(1) The amount shown as New Bond Issue in 1999 is less than the aggregate amount of the Series 1999 Bonds (\$315,410,000). The interest rates assumed under the heading "FINANCIAL PROJECTIONS -- Projected Operating Results" for the New Bond Issue are higher than the interest rates that the Series 1999 Bonds will bear. Accordingly, the projected debt service for the Series 1999 Bonds shown in Table 14, which is based upon an assumed issuance of new bonds in 1999 of \$298,176,000, is approximately the same as the actual debt service on the Series 1999 Bonds.

(2) Amount released by substituting a Credit Facility for the Reserve Fund for the Series 1993, 1995 and 1997 Bonds.

(3) Capital Expenditures by System

Fiscal Year Ending June 30	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>	<u>1998 (Actual)</u>
Municipal System	60,306	63,192	98,981	62,878	62,856	40,455	29,370	29,370	447,408	50,815
Metropolitan System	<u>177,299</u>	<u>123,034</u>	<u>101,927</u>	<u>37,911</u>	<u>21,645</u>	<u>48,712</u>	<u>73,129</u>	<u>38,520</u>	<u>622,177</u>	<u>203,681</u>
Total System	237,605	186,226	200,908	100,789	84,501	89,167	102,499	67,890	1,069,585	\$254,496

(4) Projected cash expenditures for the Wastewater System Capital Improvement Program rather than expected appropriations as shown in Table 4.

(5) Reflects total of projected sources and uses for fiscal years ending June 30, 1999 through June 30, 2006.

(6) Included to comply with the Continuing Disclosure Agreement entered into in connection with the issuance of the Series 1995 Bonds and Series 1997 Bonds.

WASTEWATER SYSTEM FINANCIAL OPERATIONS

The City's primary sources of moneys deposited in the Sewer Revenue Fund are derived from sewer service charges to City residents and commercial enterprises, capacity charges on new, additional or larger connections to the Wastewater System within the City, revenues from the Participating Agencies pursuant to the Regional Sewage Disposal Agreement and interest income on fund balances.

Establishment, Calculation and Collection of Sewer Service Charges

Sewer service charges to City utility customers, which are collected with municipal water bills and enforceable by discontinuance of water service, have been collected by the City since 1956. Periodically, sewer service charges have been revised, the latest revision becoming effective on March 20, 1999.

The City has dedicated personnel and resources to analyze rates and charges necessary to support the Wastewater System. They are responsible for collecting and collating revenue and expenditure data from key administrative, engineering, financial and budgetary City departments, then evaluating the adequacy of revenues and recommending rate adjustments in concert with debt size and timing. Once projected revenues and expenditures are validated, financing options are evaluated for the optimal mix of internally generated revenue and debt. This process, conducted biannually for management purposes and as required to facilitate planned debt issuances and rate adjustments, involves an extensive technical review by a multi-departmental finance team and detailed oversight from a senior management executive committee comprised of the City Manager, the Auditor and Comptroller, a Deputy City Manager, the Water Department Manager, the MWWDD Director, and Deputy City Attorney. After final review and validation, a financing plan is presented to the City Council for consideration, incorporating near-term debt and rate considerations as specific recommendations. See "City Council Actions Relating to Rate Changes."

Sewer service charges are based on the characteristics (volume of sewage, or flow, and suspended solids, or strength) of the wastewater discharged by each particular sewer user. All sewer users are charged based upon the amount of flow and solids which they discharge into the Wastewater System. As sewage discharge is not metered, water sales are used to approximate each customer's sewage flow. Suspended solids are based upon the classification of the user, determined by site inspections and/or analyses as required or requested.

Single-family residential customers are billed based on average winter months' water usage. The average winter months' water usage is set on July 1 of each year, based upon the individual customer's average water consumption during the previous winter months when the local area normally receives most of its annual rainfall and irrigation needs are minimized. Once set, the customer's monthly sewer service charge is fixed until the next July 1.

The historical sources of sewer service revenues of the Sewer Revenue Fund for the fiscal years ended June 30, 1994 to 1998, are set forth in Table 6 below.

Table 6
HISTORICAL SOURCES OF SEWER SERVICE REVENUES⁽¹⁾
(In Thousands of Dollars)
Fiscal Years Ended June 30, 1994 to 1998
(Unaudited)

<u>Source</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Single Family Domestic.....	\$53,214	\$56,550	\$56,502	\$60,437	\$63,712
Other Domestic.....	36,416	38,784	39,609	42,845	45,151
Commercial	28,299	30,660	30,957	34,245	38,317
Industrial.....	6,773	7,173	7,504	7,818	7,564
Outside City.....	8	9	10	10	9
Treatment Plant Service for Others ⁽²⁾	<u>32,360</u>	<u>32,271</u> ⁽³⁾⁽⁴⁾	<u>32,921</u> ⁽⁴⁾	<u>72,298</u> ⁽⁵⁾	<u>49,473</u>
TOTAL	\$157,070	\$165,447	\$167,503	\$217,653	\$204,226

(1) Does not include capacity charges or other operating revenues which are included in calculating Net System Revenues.

(2) Includes revenues from Participating Agencies, the United States Navy and other agencies.

(3) Reflects retroactive billings for costs of the Wastewater System Capital Improvement Program.

(4) Certain Participating Agencies were making a portion of their payments under protest or pursuant to a court order. None of the amounts which were paid under protest or pursuant to a court order were released into sewer service revenues for fiscal years 1995 (\$15,286,325) or 1996 (\$11,432,090). See "WASTEWATER SYSTEM - The Participating Agencies and the Regional Wastewater Disposal Agreement." See footnote (5) below.

(5) Reflects amounts which were paid by the Participating Agencies under protest or pursuant to a court order for fiscal years 1995 and 1996 that were released into sewer service revenues in fiscal year 1997 (\$26,718,415). See "WASTEWATER SYSTEM - The Participating Agencies and the Regional Wastewater Disposal Agreement."

The ten largest customers of the Municipal System, as measured by the fiscal year ended June 30, 1998 billings, are estimated to have accounted for approximately 7.1% of the Sewer Revenue Fund's total revenues for that fiscal year. Table 7 shows the billings for these customers and the related percentages of total revenues for the Sewer Revenue Fund.

Table 7
TEN LARGEST CUSTOMERS WITHIN MUNICIPAL SYSTEM⁽¹⁾
Fiscal Year Ended June 30, 1998
(Unaudited)

<u>Customer</u>	<u>Billings</u>	<u>Percent of Total Sewer Fund Revenues⁽²⁾</u>
1. U.S. Navy	\$ 8,704,352	3.1%
2. Kelco	3,816,465	1.4
3. City of San Diego	1,602,954	.6
4. UCSD	1,599,292	.6
5. RJ Donovan Prison ⁽³⁾	903,041	.3
6. Federal Government ⁽⁴⁾	815,674	.3
7. Sony	753,506	.3
8. Marine Park (Sea World)	452,573	.2
9. San Diego Unified School District	437,233	.2
10. San Diego Zoo	<u>391,869</u>	<u>.1</u>
TOTAL	\$19,476,959	7.1%

(1) Does not include Participating Agencies or customers served by Participating Agencies.

(2) Total Sewer Revenue Fund Revenues includes receipts from Participating Agencies.

(3) State of California prison.

(4) Excluding U.S. Navy.

Set forth below as Table 8 is a rate history and approved rate increases for sewage service charges.

Table 8
RATE HISTORY AND APPROVED RATE INCREASES
FOR SINGLE FAMILY DOMESTIC AND OTHER DOMESTIC,
COMMERCIAL & INDUSTRIAL

<u>Effective Date</u>	<u>Single Family Domestic⁽¹⁾</u>	<u>% Increase for Single Family Domestic Rates</u>	<u>Other Domestic, Commercial & Industrial⁽²⁾ (Monthly Charge)</u>	<u>% Increase for Other Domestic, Commercial & Industrial Rates</u>
July 1, 1993	\$21.61 ⁽³⁾	6.0%	\$0.38 plus SS Charge of \$1.243 to \$2.532 per Hcf	6.0%
July 1, 1994	\$22.91	6.0%	\$0.40 plus SS Charge of \$1.318 to \$2.684 per Hcf	6.0%
October 2, 1996	\$24.28	6.0%	\$0.42 plus SS Charge of \$1.397 to \$2.845 per Hcf	6.0%
July 1, 1997	\$25.74	6.0%	\$0.45 plus SS Charge of \$1.481 to \$3.016 per Hcf	6.0%
March 20, 1999	\$27.03 ⁽⁴⁾	5.0%	\$0.47 plus SS Charge of \$1.555 to \$3.167 per Hcf	5.0%
March 1, 2000	\$28.38	5.0%	\$0.50 plus SS Charge of \$1.633 to \$3.325 per Hcf	5.0%
March 1, 2001	\$29.80	5.0%	\$0.52 plus SS Charge of \$1.714 to \$3.491 per Hcf	5.0%

(1) Represents the average monthly amount.

(2) Other domestic, commercial and industrial monthly charges are based upon volume of flow and suspended solids.

(3) In this fiscal year, the City began sewer billings based on an average winter months' water usage. Previously, the City billed for sewer usage on a fixed flat fee. The percentage increase for the fiscal years beginning July 1, 1993 and thereafter represent estimated average increases.

(4) Effective March 20, 1999, the single family domestic sewer rate incorporates a base fee of \$7.95, plus a usage charge of \$2.71 per Hcf of average winter months' water use, subject to a maximum limitation (or "cap") of 10 Hcf per month.

Accounts Receivable

Billing is done primarily on a bi-monthly basis. Typically, the City seeks to collect unpaid bills by: (i) issuing an initial shut-off notice as early as 30 days after a bill is issued; (ii) issuing a final shut-off notice as early as 45 days after a bill is issued; and (iii) shutting off the customer's water service as early as 50 days after a bill is issued. This procedure results in almost all past due bills being paid. If necessary, the City establishes time payments for customers who are unable to pay a past due amount. If an account is closed with an amount due which remains unpaid, that account is referred to the City Treasurer for collection activities. An allowance is taken each fiscal year for accounts receivable which are not expected to be paid. During the five fiscal years ended June 30, 1998, this amount ranged from \$1,025,730 for the fiscal year ended June 30, 1994 to \$458,878 for the fiscal year ended June 30, 1998.

Table 9 sets forth information related to accounts receivable and number of shut-offs.

Table 9
SEWER CUSTOMER ACCOUNTS RECEIVABLE
AND SHUT-OFFS BY FISCAL YEAR
(In Thousands of Dollars)
For Fiscal Years Ended June 30, 1994 to 1998
(Unaudited)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Sewer Service Revenue ⁽¹⁾	\$157,070	\$165,447 ⁽⁵⁾	\$167,505 ⁽⁵⁾	\$217,653 ⁽⁶⁾	\$204,226
Accounts Receivable ⁽²⁾⁽³⁾	\$ 10,632	\$ 9,859	\$ 11,016	\$ 13,234	\$ 16,498
Accounts Receivable Over 120 Days ⁽³⁾⁽⁴⁾	\$ 730	\$ 1,076	\$ 1,064	\$ 1,106	\$ 1,253
No. of Shut-Offs ⁽¹⁾	16,677	14,983	13,915	18,069	20,496

(1) For the year ended June 30.

(2) Excludes amounts payable by Participating Agencies.

(3) As of June 30.

(4) Estimated.

(5) Certain Participating Agencies were making a portion of their payments under protest or pursuant to a court order. None of the amounts which were paid under protest or pursuant to a court order were taken into income for fiscal years 1995 (\$15,286,325) or 1996 (\$11,432,090). See "WASTEWATER SYSTEM - The Participating Agencies and the Regional Wastewater Disposal Agreement." See footnote (6) below.

(6) Reflects amounts which were paid by the Participating Agencies under protest or pursuant to a court order for fiscal years 1995 and 1996 that were taken into income in fiscal year 1997 (\$26,718,415). See "WASTEWATER SYSTEM - The Participating Agencies and the Regional Wastewater Disposal Agreement."

City Council Actions Relating to Rate Changes

Effective July 1990, the City Council adopted a five-year revenue plan which established rate increases of 6% per year for monthly sewer rates, and 16% per year for capacity charges. On October 2, 1996, the City Council adopted 6% rate increases for monthly sewer rates effective for each of the fiscal years ending June 30, 1997 and June 30, 1998. On January 19, 1999, the City Council adopted 5% rate increases for monthly sewer rates effective on March 20, 1999, March 1, 2000 and March 1, 2001. The financial projections for the Wastewater System Capital Improvement Program reflect such increases, as well as assumed increases in later years, including 10% in March 2002 and 9% in March 2003. See "SPECIAL CONSIDERATIONS FOR BONDHOLDERS" and "FINANCIAL PROJECTIONS."

In addition, the City is required to fix rates for the Wastewater System such that charges for wastewater services will be at least equal to pay all outstanding Obligations (other than Parity Obligations) and to provide Net System Revenues equal to 120% of Debt Service for the year. See "SECURITY FOR THE SERIES 1999 BONDS - Rate Covenant; Impact of Proposition 218." However, for information on the possible limitation on the City's

ability to comply with the rate covenant, see "WASTEWATER SYSTEM FINANCIAL OPERATIONS -- Impact of Proposition 218 on Sewer Service Rates and Charges."

Collection and Calculation of Capacity Charges

A capacity charge is a one-time fee for a new, additional or larger connection to the Municipal System within the City. Capacity fees are not treated as operating income for financial reporting purposes but are considered System Revenues and are deposited in the Sewer Revenue Fund. Pursuant to California law, capacity fees are applied only to capital expansion, bonds, contracts, or other indebtedness of the Wastewater System related to expansion. Because capacity fees are primarily collected on new construction within the City, revenues obtained on such fees vary based upon construction activity. See "FINANCIAL PROJECTIONS." Historical capacity charge revenues and equivalent dwelling units ("EDU") are shown in Table 10 below. The rate history for sewer capacity charges are shown in Table 11.

Table 10
SEWER REVENUE FUND
HISTORICAL CAPACITY CHARGE REVENUES

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Equivalent</u> <u>Dwelling Units⁽¹⁾</u>	<u>Capacity Charge</u> <u>Revenues⁽²⁾</u>
1986	15,460	\$15,093,242
1987	14,883	\$16,975,047
1988	6,830	\$10,736,525
1989	13,157	\$21,920,230
1990	6,489	\$22,252,058
1991	2,757	\$10,657,003
1992	2,762	\$12,385,388
1993	2,100	\$10,920,494
1994	2,509	\$15,136,994
1995	1,625	\$11,368,587
1996	2,861	\$12,526,955
1997	3,905	\$ 8,062,617
1998	5,987	\$16,136,839

(1) Unaudited.

(2) Audited.

Table 11
RATE HISTORY
FOR SEWER CAPACITY CHARGES

<u>Effective Date</u>	<u>Sewer Capacity</u> <u>Charges</u> <u>(Per Unit)</u>	<u>% Increase/(Decrease)</u>
July 1, 1991	\$4,484	16%
July 1, 1992	\$5,201	16%
July 1, 1993	\$6,033	16%
July 1, 1994	\$6,998	16%
April 22, 1996	\$2,500	(64%)

In response to a request by the City Manager to reduce sewer capacity charges in order to stimulate economic development and affordable housing, the City Council approved in June 1996, retroactive to April 22, 1996, a 64% reduction of sewer capacity charges. If Proposition 218 is determined to apply to sewer capacity charges and other sewer fees and charges and if such capacity charges are found to be below the cost of providing

the service, these and other fees and charges of the Wastewater System may need to be revised in order to satisfy the requirements of Proposition 218. See "Impact of Proposition 218 on Sewer Service Rates and Charges."

Impact of Proposition 218 on Sewer Service Rates and Charges

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the local governments to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII D conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIII D defines "fee" or "charge" to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." It is not clear whether Article XIII D applies to the City's sewer service fees and charges, which are the ultimate source of Revenues pledged to debt service on the Series 1999 Bonds and the Outstanding Parity Bonds.

In addition, by July 1, 1997, under Article XIII D, all property-related fees and charges, including those which have been in existence since prior to the passage of Proposition 218 in November 1996, should have met the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIII D (relating to assessments).
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

Without conceding that its sewer rates and charges are subject to Article XIII D, the City believes that its rates comply with the foregoing standards. In the opinion of the City Attorney, the City's capacity charges are charges imposed as a condition of property development and therefore are not subject to the requirements of Article XIII D. It is unclear whether under the foregoing standards rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves. See paragraph 4 under the heading "FINANCIAL PROJECTIONS -- Projected Operating Results."

Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. "Assessment," "fee" and "charge" are not defined in Article XIII C and it is unclear whether the definitions of such terms contained in Article XIII D (which are generally property-related as described above) are so limited under Article XIII C. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's sewer service fees and charges, which are the source of Net System Revenues pledged to the payment of debt service on the Series 1999 Bonds and the Outstanding Parity Bonds.

In addition to the foregoing, the City's general financial condition may be affected by other provisions of Article XIII C and Article XIII D, including: (i) provisions of Article XIII C (A) requiring taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the general fund, to be approved by a two-thirds vote, (B) requiring any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994 to be approved by majority vote by November 5, 1998, (C) subjecting all taxes, assessments, fees and charges to reduction or repeal at any time through the initiative process (as mentioned above), and (ii) provisions of Article XIII D that could reduce the ability of the City to fund certain services or programs that it may be required or choose to fund from its general fund, such as provisions (A) adding requirements making it generally more difficult to levy and maintain "assessments," defined to mean a levy or charge upon real property for a particular and distinct benefit to the property over and above general benefits conveyed to property located in the district or to the public at large, (B) requiring any imposition or increase of property-related fees or charges other than for sewer, water and refuse collection services or fees for electrical or gas service (which are not treated as property-related for purposes of Article XIII D) to be approved by "majority of the property owners" subject to the fee or charge or, at the option of the local government, two-thirds vote of the electorate residing in the affected area.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies

The ability of the City to comply with its covenants under the Installment Purchase Agreement and to generate Net System Revenues sufficient to pay Installment Payments thereunder and ultimately, the ability of the Authority to pay principal of and interest on the Series 1999 Bonds and the Outstanding Parity Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Series 1999 Bonds and the Outstanding Parity Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Installment Purchase Agreement, the ability of the Authority to comply with its obligations under the Indenture, the rights and obligations under the Series 1999 Bonds, the Outstanding Parity Bonds, the Indenture and the Installment Purchase Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Installment Purchase Agreement, including its covenants to generate sufficient Net System Revenues, as a consequence of the application of Article XIII C and Article XIII D, or to pay Installment Payments thereunder and ultimately, the ability of the Authority to pay principal of or interest on the Series 1999 Bonds and Outstanding Parity Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 1999 Bonds and the Outstanding Parity Bonds.

Operations and Maintenance Expenses for Tijuana Effluent

For over sixty years the Tijuana River, which flows northward from Tijuana, Mexico into southern San Diego County in the United States, has been a vehicle for the intermittent transportation of raw sewage. On April 15, 1991, the City Council adopted a resolution directing the City Manager to accept sewage from Tijuana, Mexico into the emergency connection of the Metropolitan System. Currently, the emergency connection has a capacity of 13 mgd. The City entered into an annual contract with the IBWC on July 22, 1991, with the condition that the IBWC seek funding from the U.S. Congress to reimburse the City for the use of the emergency connection at a rate based on the actual cost for operations and maintenance. In the event Congress does not provide sufficient appropriations for the treatment of the Tijuana sewage, the City may terminate the contract.

In federal fiscal year 1998, the City changed the rate structure and began billing based on the strength of the effluent. In federal fiscal year 1999, beginning October 1, 1998, the rates charged will be based on actual flow through the emergency connection at a rate of \$422.18 per million gallon, plus \$144.36 per thousand pounds of total suspended solids and \$57.03 per thousand pounds of chemical oxygen demand. Additionally, the IBWC is charged \$255 per month for the maintenance of the Event Notification System installed on the South Metro Interceptor, which measures available capacity in the Metropolitan System. The federal fiscal year 1999 budget includes \$1,498,000 for treatment of Tijuana sewage. The IBWC has completed construction of a 25 mgd primary treatment facility in the Tijuana River Valley to treat Tijuana sewage. The South Bay Ocean Outfall through which effluent from this primary treatment facility will be discharged, was completed in December 1998, after which time the emergency connection was closed.

Year 2000 Computer Issues

The year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the City's or the City's vendors' or suppliers' computer programs that have time-sensitive software or equipment may recognize a date using "00" as the year 1900 rather than the year 2000. Problems can occur before the year 2000, when future dates are encountered in data. This could result in system failures or miscalculations causing disruption of operations of the Wastewater System. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, the City's disclosures with respect to the year 2000 issue cannot provide assurance that the City is or will be year 2000 ready, that the City's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the City does business will be year 2000 ready. See Note 9 to APPENDIX A - "AUDITED FINANCIAL STATEMENTS OF THE SEWER UTILITY FOR YEARS ENDED JUNE 30, 1998 AND JUNE 30, 1997."

The MWWD has identified four major areas that will be impacted by the year 2000 issue: (1) City-wide systems, (2) Wastewater System operation systems and equipment with embedded microchips, (3) MWWD computer systems, including COMNET and (4) MWWD's vendors, suppliers and other business partners.

The City-wide systems cover all of the City's mainframe computers, including the Auditor and Comptroller's systems that track accounts payable/receivable for vendors for the Wastewater System as well as invoice the Participating Agencies. The City-wide systems also include the payroll system for City employees, including employees of the MWWD and the billing and installation systems that contain the information needed by the MWWD to bill its customers and track service installations. The City expects that it will complete year 2000 remediation of City-wide systems by June 1999. The total estimated cost is \$6.2 million for all City-wide systems and over \$5 million have been spent by the City to date on this project. An additional amount of approximately \$1.6 million have been spent since January 1995 on the year 2000 remediation of the Auditor and Comptroller's systems. The MWWD is developing a contingency plan to generate bills on its local computer system in the event the City-wide system is inoperable (see below for discussion of year 2000 issues regarding the MWWD's computer systems). Substantial delays in completing these projects could adversely affect billings, collections, service installations and some financial or administrative functions, and therefore impact the Net System Revenues available for Installment Payments.

The MWWD has also identified certain Wastewater System treatment facility equipment and components using embedded microchips that may not be year 2000 compliant. In January 1999, the MWWD hired an outside consultant to fully inventory the affected equipment at each facility, at a contract cost of approximately \$180,000. Concurrently, the MWWD is creating contingency plans for (1) replacement and/or modifications of identified equipment to make it function correctly, and (2) manual control or operation of facility equipment in the case of automated systems failure. The additional costs for this project may range from \$100,000 to \$1,000,000 for actual equipment replacement or modification. A more exact cost will not be known until the inventory and analysis phases are completed in April 1999. Because most of the equipment at newer facilities already functions correctly, the possible impact to operations is expected to be minimal, and the project to make necessary replacements and/or modifications is expected to be completed by July 1999. The failure of any of these operational systems to function correctly may impact public health conditions and cause noncompliance with mandated standards which may result in fines being levied against the City.

The MWWD has identified internal computer hardware systems and software programs that are not designed or programmed to be year 2000 compliant. In addition, the MWWD identified similar computer systems shared with the City's Water Department for billing, collections, accounts payable/receivable, service installation and facility maintenance. The MWWD has several projects underway to make modifications and/or replace both hardware and software as necessary to become year 2000 compliant, and the combined budget (included in the total for City-wide systems above) is approximately \$700,000. The COMNET systems used by the MWWD for treatment plant operations are being tested in March through May 1999, and any modifications or upgrades are to be completed by August 1999. The contingency plans for the equipment with embedded microchips described above will also be used for COMNET systems. The facilities maintenance system already functions correctly and new laboratory systems that function correctly were put into place in February 1999. It is expected that corrections and/or replacements for most systems, including the billing, collections and accounts payable/receivable, will be completed by June 1999 and for anything remaining by October 1999. While the projects are on schedule, substantial delays in completing the modifications and/or replacements could adversely affect billings, collections, service installations and some financial or administrative functions, and therefore impact Net System Revenues available for Installment Payments.

The MWWD has identified the primary outside vendors and business partners that supply critical chemicals, materials, parts and services required to maintain wastewater treatment operations. As part of the City's Year 2000 Compliance Project, these vendors are being contacted to determine their level of Year 2000 readiness. Concurrently with that effort, the MWWD is developing additional contingency plans that include finding alternate sources for supplies, stockpiling supplies (if possible) prior to December 31, 1999, finding alternate materials/parts to replace existing items, and working with vendors to determine alternate methods of delivery. Vendor responses are expected to be received from December 1998 through July 1999, and the MWWD's contingency plans are expected to be completed by April 1999. The failure of any of these operational systems to function correctly may impact public health conditions and cause noncompliance with mandated standards which may result in fines being levied against the City.

Additionally, year 2000 problems could cause the delay of payments to Bondholders by the Trustee or other financial intermediaries. For publicly-distributed information relating to the Trustee's year 2000 readiness, see the Trustee's home page on the Internet located at www.statestreet.com. In addition, see APPENDIX D -- "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- Indenture" for a provision contained in the Indenture regarding the Trustee's year 2000 readiness. For information on the year 2000 issues relating to DTC, see "DESCRIPTION OF THE SERIES 1999 BONDS -- Book-Entry-Only System."

Historical Revenues and Debt Service Coverage

Table 12 contains the Statement of Income for fiscal years ended June 30, 1994 through 1998, and Table 13 contains the Calculation of Debt Service Coverage for such years. See also APPENDIX A -- "AUDITED FINANCIAL STATEMENTS OF THE SEWER UTILITY FOR YEARS ENDED JUNE 30, 1998 AND JUNE 30, 1997."

Table 12
WASTEWATER SYSTEM STATEMENT OF INCOME
Fiscal Years Ended June 30, 1994 to 1998

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
OPERATING REVENUES					
Sewer Service Charges:					
Inside City:					
Domestic	\$89,630,046	\$95,333,742	\$96,113,508	\$103,303,691	\$108,863,152
Commercial and Industrial	35,072,134	37,832,852	38,460,649	42,062,881	45,881,035
Outside City:					
Domestic, Commercial & Industrial	7,866	9,270	10,151	10,005	9,151
Treatment Plant Service for Others	<u>32,360,195</u>	<u>32,271,388⁽¹⁾</u>	<u>32,920,667⁽¹⁾</u>	<u>72,298,312⁽²⁾</u>	<u>49,612,651</u>
Total Sewer Service Revenues	157,070,241	165,447,252	167,504,975	217,674,889	204,365,989
Other Operating Revenues:					
Aquaculture Operating Grants	227,550	312,234	426,175	(193,284)	0
Miscellaneous (Net)	<u>2,779,270</u>	<u>188,111</u>	<u>1,017,445</u>	<u>1,152,563</u>	<u>2,068,870</u>
TOTAL OPERATING REVENUES	160,077,061	165,947,597	168,948,595	218,634,168	206,434,859
OPERATING EXPENSES	<u>109,938,980</u>	<u>118,354,527</u>	<u>122,983,712</u>	<u>130,723,373</u>	<u>146,857,627</u>
OPERATING INCOME	<u>50,138,081</u>	<u>47,593,070</u>	<u>45,964,883</u>	<u>87,910,795</u>	<u>59,577,232</u>
NON-OPERATING REVENUES					
(EXPENSES):					
Interest Income	11,289,578	16,459,340	16,834,747	16,311,684	19,338,425
Gain (Loss) on Sale/Retirement of Fixed Assets	(6,316,466)	(32,027,997) ⁽³⁾	(2,591,703)	5,060,876	63,189
Interest Expense	(8,355,755)	(12,467,426)	(19,928,687)	(31,184,467)	(38,653,904)
Non-Operating Grants	0	0	14,673,091	42,678,235	25,054,559
Other	<u>(549,280)</u>	<u>(1,227,068)</u>	<u>(10,793,562)</u>	<u>(42,192,724)</u>	<u>(26,437,154)</u>
TOTAL NON-OPERATING REVENUES					
(EXPENSES)	<u>(3,931,923)</u>	<u>(29,263,151)</u>	<u>(1,806,114)</u>	<u>(9,326,396)</u>	<u>(20,634,885)</u>
Operating Transfer In	0	80,896	173,040	127,835	33,239
Operating Transfer Out	<u>(1,109,403)</u>	<u>(1,414,104)</u>	<u>(2,737,000)</u>	<u>(1,425,132)</u>	<u>(694,853)</u>
NET INCOME	<u>\$45,096,755</u>	<u>\$16,996,711</u>	<u>\$41,594,809</u>	<u>\$77,287,102</u>	<u>\$38,280,733</u>

- (1) \$15,286,325 and \$11,432,090 of revenues billed and received from the Participating Agencies for the fiscal years 1995 and 1996 were not included as the Participating Agencies were disputing the billings. See "WASTEWATER SYSTEM -- The Participating Agencies and the Regional Wastewater Disposal Agreement." See also footnote (2) below.
- (2) \$26,718,415 of revenues billed and received from the Participating Agencies for the fiscal years 1995 and 1996 were released into sewer service revenue in fiscal year 1997. See "WASTEWATER SYSTEM -- The Participating Agencies and the Regional Wastewater Disposal Agreement."
- (3) See "Management's Discussion and Analysis -- Gain (Loss) on Sale/Retirement of Fixed Assets."

Table 13
CALCULATION OF DEBT SERVICE COVERAGE
Fiscal Years Ended June 30, 1994 to 1998
(Unaudited)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
TOTAL OPERATING REVENUES	\$160,077,061	\$165,947,597	\$168,948,595	\$218,634,168	\$206,434,859
OPERATING EXPENSES:					
Transmission	23,481,764	31,786,946	33,264,059	35,745,840	44,422,508
Treatment and Disposal Plant.....	45,125,696	44,121,508	39,406,012	37,709,123	43,725,429
Special Projects	6,663,570	7,492,445	0	0	0
Accounting	2,228,585	2,471,754	2,160,301	4,434,608	5,927,117
General and Administrative.....	<u>22,208,293</u>	<u>22,423,239</u>	<u>37,186,483</u>	<u>38,532,403</u>	<u>37,011,963</u>
TOTAL OPERATING EXPENSES ⁽¹⁾	<u>99,707,908</u>	<u>108,295,892</u>	<u>112,016,855</u>	<u>116,421,974</u>	<u>131,087,017</u>
TOTAL OPERATING INCOME	<u>60,369,153</u>	<u>57,651,705</u>	<u>56,931,740</u>	<u>102,212,194</u>	<u>75,347,842</u>
OTHER INCOME (CHARGES):					
Capital Grant Receipts	23,682,613	33,115,894	48,629,476	67,343,104	37,552,666
Operating Transfer In/(Out)	(1,109,403)	(1,333,208)	(2,563,960)	(1,297,297)	(661,614)
Trunk Line Sewer Area Charge.....	(361,382)	(73,491)	0	0	0
Capacity Charge Municipal System	15,136,994	11,439,060	12,523,907	8,062,617	16,136,839
Interest Income.....	11,289,578	16,459,340	16,834,747	16,311,684	19,338,425
Reverse Repurchase Agreement					
Interest Expense	(740,345)	(2,529,402)	(1,113,892)	0	0
Rate Stabilization Fund	0	0	(10,000,000)	(30,000,000)	(5,000,000)
Other Income.....	<u>423,229</u>	<u>1,534,499</u>	<u>(9,149,987)</u>	<u>(40,984,517)</u>	<u>(25,655,496)</u>
TOTAL OTHER INCOME.....	<u>48,321,284</u>	<u>58,612,692</u>	<u>55,160,291</u>	<u>19,435,591</u>	<u>41,710,820</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE.....	<u>108,690,437</u>	<u>116,264,397</u>	<u>112,092,031</u>	<u>121,647,785</u>	<u>117,058,662</u>
DEBT SERVICE COVERAGE					
Principal and Interest Due in Fiscal Year	9,962,877	16,319,661	24,428,688	37,441,098	56,537,491
Coverage	10.91 ⁽²⁾	7.12	4.59	3.25	2.07

- (1) The difference between Operating Expenses in Tables 12 and 13 is due to depreciation expense being excluded in Table 13.
- (2) Does not equal Exhibit D of the fiscal year 1994 Financial Statements as Capital Grant Receipts were excluded from income in the computation of debt service coverage. The 1995 through 1998 Financial Statements included Capital Grant Receipts as income in the computation of debt service coverage, in accordance with the terms and conditions of the Installment Purchase Agreement.

Management's Discussion and Analysis

The following discussion relates to certain items shown in Table 12.

Operating Revenues. Sewer service charge revenue for domestic and industrial customers increased consistently from 1994 to 1998 due primarily to approved rate increases. The City Council adopted 6% per year rate increases for fiscal years 1994, 1995, 1997 and 1998.

The Participating Agencies are billed for their portion of the total expenses of the Metropolitan System for operation and maintenance expense, construction costs and debt service payments related to the Wastewater System Capital Improvement Plan. The construction cost component of the bill can vary widely from year to year, depending upon what projects are underway. Due to the variability, Treatment Plant Services for Others will increase or decrease accordingly in any given fiscal year. The increase in Treatment Plant Service for Others from 1994 to 1995 (after adjusting for the disputed billing discussed below) was attributable to increased construction costs. The increase in Treatment Plant Service for Others revenue from 1996 to 1997 was due to increased one time recognition of revenues from the Participating Agencies. The amounts \$15,286,325 and \$11,432,090 of revenues

billed and received from the Participating Agencies for fiscal years 1995 and 1996 were not included Treatment Plant Service revenue as they were disputing the billings. In 1997, the dispute was resolved and the revenue was recognized. If the revenue had been recognized when received, Treatment Plant Service for Others revenue would have remained level at \$47,557,713, \$44,352,757, \$45,579,897 and \$49,473,089 in fiscal years 1995, 1996, 1997 and 1998.

Operating Expenses. Operating expenses increased from 1996 to 1997 mainly due to an increase in depreciation expense. This increase was partially caused by the transfer of certain fixed assets from the Water Department to the Wastewater System as a result of the separation of the two systems. Operating expenses increased from 1997 to 1998 primarily due to increased costs associated with sewer line maintenance and the Wastewater System's treatment and disposal plants. Since fiscal year 1997, three treatment plants have either been completed or taken over by the Metropolitan System. These new plants are the North City Plant, the Metropolitan Biosolids Center and the San Pasqual Water Reclamation Plant, which was transferred from the Water Department on July 1, 1997. The addition of these plants, which will be owned and operated by the Wastewater System on an ongoing basis, caused a \$13 million increase in operating expenses in 1998. Also in 1998, operating expenses at the Point Loma Plant increased due to the heavy rain fall in that year.

Since 1994, the City has imposed right-of-way charges, payable to the General Fund, on the Wastewater System for use by the MWW of City streets for sewage lines. The charges are considered Wastewater System maintenance and operations charges and are therefore expenses, which are payable prior to Parity Obligations, including the Series 1999 Bonds. The City's right-of-way charges for the fiscal years ending 1994 to 1997 were \$3.1 million, \$5.5 million, \$8.3 million, and \$8.9 million, respectively. The City Council has decided to phase out the right-of-way charge over five years beginning in fiscal year 1998. In fiscal year 1998, the City began a five-year program to phase out the right of way charges. The charge for the fiscal year 1998 was \$7.8 million.

The Operations and Maintenance Division of the MWW implemented a six-year "Public Contract Operations" agreement in 1998 termed "Bid to Goal." This agreement is aimed at improving productivity by combining the most appropriate practices from both the public and private sectors. The agreement established an optimized competitive goal, which, if met, will mean an approximate 18% savings when compared to the baseline fiscal year 1997 long-term plan. Improved practices associated with these savings include process streamlining and automation, centralization of major maintenance and warehousing functions, increased emphasis on predictive and preventative maintenance, a pilot performance pay program and an enhanced labor/management partnership. Some of these practices were phased in just prior to the beginning of the agreement, and the transition to full optimization is anticipated to take two years. The results for the first year show savings of \$16.6 million in excess of the established goal of \$8.8 million.

Interest Income. Interest income increased in 1995 and 1996 due to higher yields resulting from longer term investment in addition to larger cash balances in pooled cash. Interest income decreased in 1997 mainly due to a decreased cash balance. Interest income increased in 1998 due to a higher investment yield and a larger balance in pooled cash. Although the cash balance at the end of fiscal year 1998 was less than fiscal year 1997, the average daily balance was higher. All previous bond proceeds were fully expended by May 1998 and as a result, capital improvement program expenses after that date were paid for from cash in the Sewer Fund causing a reduction in cash by the end of 1998.

Gain (Loss) on Sale/Retirement of Fixed Assets. In 1994 and 1995, the loss experienced was due to a write-off of the costs of projects that are no longer being pursued because the City had successfully changed from Alternative IVA to the Consumers' Alternative as a result of a U.S. District Court order. See "ACTIONS UNDER CLEAN WATER ACT." As a result of the separation of the Wastewater System from the Water Department, there was a gain in 1997 resulting from the transfer of certain fixed assets to the Wastewater System.

Interest Expense. Interest expense increased steadily from 1994 to 1998 because of the issuance of the Series 1993, Series 1995 and Series 1997 Bonds.

Non-Operating Grants. Revenues from this source in 1996 arose from a new agreement with the IBWC to construct the federal portion on the South Bay Ocean Outfall, an outfall running seaward from the Tijuana River Estuary. The outfall will be jointly owned by the IBWC and the City. The revenue reported is a pass through to

cover the Federal share of the project costs. These revenues peaked in 1997 and decreased in 1998 as the project is being brought to its completion.

Other. Other non-operating revenues increased in 1995 due to a reclassification of revenues from Operating Revenues -- Miscellaneous. Non-operating expenses increased in 1996 and 1997 due to the pass through of construction costs for the above referenced IBWC share of the South Bay Ocean Outfall, and decreased in 1998 in connection with the decrease in construction costs.

Operating Transfer Out. In 1994 to 1996, \$500,000 was transferred to the Water Fund of the Water Department to fund the rebate program for water conservation fixtures described in "ACTIONS UNDER THE CLEAN WATER ACT -- Litigation and Final Order." The amounts in excess of \$500,000 in 1995 were due to transfers totaling \$914,000 to the Authority to replenish the Reserve Fund securing the Series 1993 Bonds due to a market devaluation. The increase in 1996 is due to the City Council approving the imposition of \$2.1 million upon the Sewer Revenue Fund for the purpose of reimbursing other City funds for certain storm drain related expenses. The intended uses of the amount were an educational program concerning the National Pollutant Discharge Elimination System, reimbursing the public liability reserve for related storm drain related claims, and construction of storm drains. This charge had not previously been imposed upon the Wastewater System and was characterized by the City Council at the time as a one time assessment. It has not been charged to the Wastewater System subsequently. In 1997, \$1,250,000 was transferred to the Wastewater Facilities Engineering Fund, an internal service fund established to provide services to the Wastewater System. This transfer was done to cover the initial costs of the fund and will be repaid in 1999. In 1998, \$512,000 was transferred to pay for costs associated with the development of new computer systems.

The following discussion relates to certain income statement items shown in greater detail in Table 13.

Transmission. Transmission costs increased from 1997 to 1998 due mainly to an increased emphasis on sewer main televising and subsequent main cleaning. These are preventative measures to alleviate main blockages.

Treatment and Disposal Plant. Treatment and Disposal Plant cost increased from 1997 to 1998 due to the addition of three treatment plants to the Wastewater System as described in "Operating Expenses" above. The addition of these plants added \$13 million to Treatment and Disposal Plant expenses in 1998.

General and Administrative. General and Administrative costs increased from 1995 to 1996 due to a reclassification of costs from Special Projects to General and Administrative. The additional increase is due to increased costs in data processing.

Capacity Charge Municipal System. Capacity Charge revenues declined in 1995 due to a reduction in the level of construction in the service area. In 1996, a 64% reduction in capacity charges was approved by the City Council in order to stimulate economic development and affordable housing leading to a 36% decline in revenues from that source in fiscal year 1997. Sewer capacity charges were reduced from \$6,998 to \$2,500 per equivalent dwelling unit. In 1998, revenues doubled over 1997 levels as the level of construction increased.

FINANCIAL PROJECTIONS

Set forth below in Table 14 are the projected cash receipts and operating expenditures for the eight fiscal years ending June 30, 2006. Table 14 incorporates the assumptions described below, including assumed inflation and interest rates, rate increases and the amount of indebtedness to be issued during the projection period. For purposes of complying with the Continuing Disclosure Agreement, the actual results for any future year specified in Table 14 will be reflected in Schedule F-1 and F-2 of the City's Sewer Utility annual financial statements for that year and will be comparable to the financial data contained in Schedules F-1 and F-2 of the financial statements attached as Appendix A. Alternatively, the actual results may be published in tabular form, comparable to Table 14. The City has chosen to analyze prospective rate covenant coverage on the basis of projected cash receipts and operating expenses when paid. Accordingly, the method of calculating Net Revenue for Table 14 differs from the method of calculating Net Revenue Available For Debt Service for Table 13.

There are several differences in the projections presented below and those projections contained in the Official Statement related to the Series 1997 Bonds (the "1997 Official Statement"). The maintenance and operations expenditures for the Wastewater System are slightly lower than contemplated in the 1997 Official Statement due to: (1) the implementation of the Bid-To-Goal Program discussed above under "Management's Discussion and Analysis -- Operating Expenses"; (2) the phase out of the Right-of-Way Charges to the Sewer Revenue Fund; and (3) the execution of the Regional Wastewater Disposal Agreement between the City and the 14 Participating Agencies. The assumptions in the rate increases shown below of 5% in fiscal years 1999 through 2001 are lower than those used in the 1997 Official Statement of 6% in 1999 and 8% in 2000 through 2003, due to the factors discussed in the preceding paragraph and the resolution of the disputes between the City and the Participating Agencies. The 1997 Official Statement assumed that indebtedness would not be issued in fiscal years 2001 through 2003. Expected increases in indebtedness are due to the added projects in the Wastewater System Capital Improvement Program. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

Table 14
FINANCIAL PROJECTIONS
(In Thousands of Dollars)
Fiscal Years Ending June 30, 1999 to 2006
(Unaudited)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>1998</u> <u>Actual⁽²⁾</u>
ESTIMATED REVENUES									
Sewer Service Charge Revenues	\$159,347	\$172,725	\$184,545	\$199,503	\$222,353	\$242,992	\$256,635	\$270,703	\$152,716
New Sewer Service Connections	110	112	114	115	117	118	120	121	120
Sewage Treatment Plant Services	50,060	59,362	61,520	56,672	57,050	61,303	65,381	64,040	48,977
Sludge Handling Charge	0	0	0	0	0	0	0	0	80
Interest Earnings ⁽¹⁾	10,936	12,607	10,847	9,464	9,216	9,683	10,486	11,579	20,472
Services Rendered Other Funds/Others ⁽³⁾	1,310	1,349	1,403	1,459	1,518	1,578	1,641	1,707	6,291
Capacity Charge Municipal System	7,004	7,355	7,722	8,109	8,514	8,940	9,387	9,856	16,137
Sale of Electricity/Gas Engine Generation	285	294	305	318	330	343	357	371	281
Contributions in Aid/Grant Receipts	8,996	0	0	0	0	0	0	0	37,553
Other Revenue	262	262	262	262	262	262	262	262	(410)
Rate Stabilization Fund Transfer ⁽⁴⁾	<u>8,500</u>	<u>3,000</u>	<u>11,000</u>	<u>14,000</u>	<u>4,000</u>	<u>0</u>	<u>0</u>	<u>(5,000)</u>	<u>(5,000)</u>
TOTAL ESTIMATED REVENUES	246,810	257,066	277,718	289,902	303,360	325,219	344,269	353,639	277,217
OPERATING EXPENDITURES									
Total Maintenance & Operation	155,674	161,031	168,169	175,025	179,208	187,655	195,548	203,559	130,325
NET SYSTEM REVENUE	91,136	96,035	109,549	114,877	124,152	137,564	148,721	150,080	146,892
COVERAGE TEST									
Net System Revenue	91,136	96,035	109,549	114,877	124,152	137,564	148,721	150,080	146,892
Annual Debt Service ⁽⁵⁾	66,796	77,061	82,654	91,274	96,827	102,040	107,792	112,905	56,538
DEBT SERVICE COVERAGE	1.36	1.25	1.33	1.26	1.28	1.35	1.38	1.33	2.60

(1) Includes interest on Debt Service Reserve Fund as indicated in the Authority's financial statements, but excludes interest on Construction Fund.

(2) Included to comply with the Continuing Disclosure Agreement entered into in connection with the issuance of the Series 1995 Bonds and Series 1997 Bonds.

(3) Projected amounts include services rendered to others.

(4) See paragraph 4 under "Projected Operating Results" below for the possible effect of Proposition 218 on the City's ability to set rates and charges sufficient to make the projected deposits to the Rate Stabilization Fund.

(5) See paragraph 7 under "Projected Operating Results" below.

Projected Operating Results

Table 14 provides the operating revenues of the Wastewater System for the fiscal years ending June 30, 1999 through June 30, 2006.

The following reflects the principal assumptions used in the preparation of these financial projections:

1. The Metropolitan System will continue to be owned and operated by the City and the facilities contained in the Metropolitan Wastewater Plan will be constructed and come into operation as currently planned by the City.
2. The City will continue to maintain a 45-day operating reserve.
3. Maintenance and operations expenditures (in thousands) for the fiscal years ending June 30, 1999 through June 30, 2006 will be as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Municipal System	\$58,565	\$58,978	\$61,670	\$ 64,251	\$ 64,333	\$ 68,440	\$ 71,564	\$ 74,616
Metropolitan System	<u>\$97,109</u>	<u>\$102,053</u>	<u>\$106,499</u>	<u>\$110,774</u>	<u>\$114,875</u>	<u>\$119,215</u>	<u>\$123,984</u>	<u>\$128,943</u>
TOTAL	\$155,674	\$161,031	\$168,169	\$175,025	\$179,208	\$187,655	\$195,548	\$203,559

Inflation rates were applied to maintenance and operations estimates as follows: 3.0% for the fiscal years ending June 30, 2000 and 4.0% per year for each fiscal year thereafter.

4. For the fiscal years ending June 30, 1999 through June 30, 2006, growth projections of single family residential accounts are based upon growth projections of population prepared by the San Diego Association of Governments. Sewer service charges are assumed to increase by 5.0% in March 1999, March 2000 and March 2001, 10% in March 2002, 9% in March 2003 and 4% each March in 2004 through 2006. The City Council directed MWWD staff to form a citizen's review committee to work with the MWWD with a view to reducing the 10% rate increase in fiscal year 2002 and the 9% increase in fiscal year 2003.

It is unclear whether under Proposition 218 the City can make deposits to the Rate Stabilization Fund. If it were determined that Proposition 218 prevented the City from setting rates and charges sufficient to make the deposits projected on Table 14 (and assuming the City would not be prevented from making the withdrawals projected on Table 14) and without making any alterations to the other financing assumptions, the projected rate increases as described above would not change because the City is projecting only withdrawals from 1999-2005 and one deposit in 2006. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS - Impact of Proposition 218 on Sewer Service Rates and Charges."

No increases in capacity charge rates are assumed. New system hook-ups (measured in EDU's) are projected based on the average of the last five years, increased at 5.0% per year. These projections are summarized below.

For the Fiscal Year Ending June 30,
Projected

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Single-Family Monthly Service Charge (Average)	\$27.03	\$28.38	\$29.80	\$32.78	\$35.73	\$37.16	\$38.65	\$40.
Single-Family Residential Accounts	206,963	210,665	213,691	216,716	219,741	222,766	225,791	228,3
Total Service Charge Revenues (000)	\$159,347	\$172,725	\$184,545	\$199,503	\$222,353	\$242,992	\$256,635	\$270,7
Capacity Charge (Per EDU)	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,5
Annual Increase in EDU's	3,045	3,198	3,358	3,525	3,702	3,887	4,081	4,2
Total Capacity Charge Revenue (000)	\$7,004	\$7,355	\$7,722	\$8,109	\$8,514	\$8,940	\$9,387	\$9,8

5. The City will fund the capital costs of the Wastewater System Capital Improvement Plan from a combination of proceeds of indebtedness and Wastewater System revenues as set forth in Table 5.

6. The average annual interest rate on indebtedness issued to finance the Wastewater System Capital Improvement Plan will be 5.5% for fiscal year 1999 and 6.5% thereafter through fiscal year ending June 30, 2006, and such debt will be amortized over 30 years from time of issuance.

7. The amount of indebtedness (in thousands) that will be issued in each of the fiscal years ending June 30, 1999 through June 30, 2006 to fund the Wastewater System Capital Improvement Program will be as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal Amount (in thousands)</u>
1999	\$298,176
2000	\$ 0
2001	\$146,169
2002	\$ 78,968
2003	\$ 66,207
2004	\$ 69,863
2005	\$ 80,308
2006	\$ 53,192

The amount of the indebtedness assumed to be issued in 1999 is less than the aggregate amount of the Series 1999 Bonds (\$315,410,000). The interest rates assumed in the preceding paragraph 6 for the indebtedness are higher than the interest rates that the Series 1999 Bonds will bear. Accordingly, the projected debt service for the indebtedness incurred in 1999 shown in Table 14, which is based upon an assumed issuance of indebtedness in 1999 of \$298,176,000, is approximately the same as the actual debt service on the Series 1999 Bonds.

Including the issuance of the Parity Bonds in 1993, 1995 and 1997, the total amount of indebtedness described above is approximately \$1.643 billion (including approximately \$418 million of debt related to the Municipal System). Not reflected in the following financial projections is another potential source of funds that the City is pursuing through the State of California State Revolving Fund Program operated by the State Board. Any amounts obtained by the City pursuant to the State Revolving Fund Program would replace and thus reduce the principal amount of any new bond issues which are shown above.

8. The average annual interest rate on invested funds will be 5.0%, with the exception being 4% in fiscal year 1999 only.

9. The City and the 14 Participating Agencies have entered into the 50-year Regional Wastewater Disposal Agreement. The new agreement resolves all items previously in dispute, as referred to in the Prior Official Statement. The new agreement provides for the Participating Agencies to pay their proportionate share of Metropolitan System costs as described under "WASTEWATER SYSTEM - The Participating Agencies and the Regional Wastewater Disposal Agreement." The Participating Agencies will contribute approximately 30% of the total Metropolitan System effluent flow.

10. Annual flows of the City for fiscal years ending June 30, 1999 through June 30, 2006 will be as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual								
Flows - mgd	140	139	141	144	146	149	151	153
Percent (%)								
Increase	-5.41	-0.71	1.44	2.13	1.39	2.05	1.34	1.32

11. The EPA will extend the City's waiver from the secondary treatment standards of the Clean Water Act and certain requirements of OPRA will be amended as discussed under "ACTIONS UNDER THE CLEAN WATER ACT - Relief From Secondary Treatment Standards." The consequences of not obtaining the waiver from secondary treatment standards and the amendments to the requirements of OPRA would significantly affect the projections set forth above.

LABOR RELATIONS

Approximately 98% of the MWWD employees are represented by either the Municipal Employees Association ("MEA") or the American Federation of State and County Municipal Employees ("Local 127"). In general, the MEA represents all technical, professional, and supervisory staff and administrative support personnel. Local 127 represents maintenance workers, laborers, skilled trades positions and equipment operators.

MEA represented employees and Local 127 represented employees received a 3% pay increase effective December 30, 1995, a 3% increase effective December 28, 1996 and a 4% increase effective December 27, 1997. The current agreements with both groups of employees provide for a 2% pay increase effective December 26, 1998, a 4% increase in December 1999 and a 2% increase in July 2000. These agreements expire on June 30, 2001.

PENSION PLAN

All the MWWD employees along with all other City employees and employees of the San Diego Unified Port District, participate in the City Employees' Retirement System ("CERS"). As a multiple-employer public employee retirement system, CERS acts as a common investment and administrative agent for both the City and the San Diego Unified Port District. CERS provides retirement benefits to all of its members through a variety of benefit plans.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service and age. The MWWD employees and other City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

The City's last actuarial evaluation dated June 30, 1997 stated the funding ratio (Valuation of Assets available for Benefits to Total Actuarial Accrued Liability), of the CERS fund to be 94.2%. The CERS fund has an Unfunded Actuarial Accrued Liability ("UAAL") of \$105.6 million as of June 30, 1997. The UAAL is the difference between total actuarial accrued liabilities of \$1.822 billion and assets allocated to funding of \$1.717 billion. The UAAL is amortized over a 30-year period which started July 1, 1991, with each year's

amortization payment reflected as a portion of the percentage of payroll representing the employer's contribution rate. As of June 30, 1998 there were 23 years remaining in the amortization period.

INSURANCE

The MWWD is self-insured for workers' compensation and long-term disability and for public liability claims exposure up to \$1,000,000 per occurrence. For liability between \$1,000,000 and \$24 million, the MWWD is covered by the City which purchases insurance from commercial insurers in layers for its public liability exposure.

The annual budget and expenditures for liability claims of the Wastewater System for fiscal years 1994 through 1999 is reflected in Table 15 as follow:

Table 15
LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years Ending June 30, 1994 to 1999
(Unaudited)

<u>Fiscal Year</u>	<u>Budget</u>	<u>Expenditure</u>
1994	\$1,464,000	\$1,710,000
1995	\$1,464,000	\$1,458,000
1996	\$1,464,000	\$ 964,295
1997	\$1,464,000	\$ 905,166
1998	\$1,464,000	\$2,714,552
1999	\$1,464,000	—

The City maintains commercial property insurance on all City owned buildings of an insurable nature, and currently carries property and extended loss insurance coverage of \$200 million per occurrence with a \$25,000 deductible on all City buildings, and earthquake insurance coverage of up to \$100 million on all bond-funded buildings. Depending on availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future. The City does not maintain any casualty insurance on the pipelines of the Wastewater System as such insurance is not commercially available.

Insurance for the projects contemplated by the Wastewater System Capital Improvement Plan is provided by the City through an Owner Controlled Insurance Program through a single private insurance company which provides liability insurance coverage in the amount of \$100 million. The Owner Controlled Insurance Program provides general liability, workers' compensation and builder's risk property insurance for all contractors working on the MWWD's construction sites.

INVESTMENT OF FUNDS

The Treasurer of the City, in accordance with the Charter of the City, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "Pool"). Responsibility for the daily investment of funds in the Pool is delegated to the City's Investment Officer. The City is the only participant in the Pool; there are no other Pool participants either voluntary or involuntary. The investment objectives of the Pool are preservation of capital, liquidity and return.

Oversight and Reporting Requirements

The City Treasurer provides an investment report on a monthly basis to the City Manager, the City Auditor/Comptroller, and the City Council and annually presents a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council and the City Manager's Investment Advisory Committee. The Investment Advisory Committee was established in March 1990 and is comprised of the City Auditor and

Comptroller, the Financial and Technical Services Deputy City Manager and two investment professionals from the private sector. The Committee is charged with oversight responsibility to review on an on-going basis the Investment Guidelines and practices of the City Treasurer and recommend changes. Investments in the Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section utilizes outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly portfolio valuation, investment performance statistics and other statistical security reports which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasury accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, City Manager and other officials.

Authorized Investments

Investments in the Pool are governed by State law and further restricted by the City's Investment Guidelines. The Investment Guidelines have been written with safety of principal being their foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, corporate medium term notes, money market instruments and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. A reverse repo is a transaction in which the Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the Pool's use of the money. There were no reverse repos outstanding as of December 31, 1998. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 50% of the total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year; it measures its performance against the Merrill Lynch 3 to 6 month U.S. Treasury Bill Index. The remaining 50% of the funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; it measures its performance against the Merrill Lynch 1 to 3 year U.S. Treasury Index. Safety of principal and liquidity are the paramount considerations in the management of both portfolios.

The Pool does not engage in securities lending transactions.

Pool Liquidity and Other Characteristics

The Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of December 31, 1998, approximately 18% of the Pool investments matured within 61 days, 23% within 92 days and 47% within 182 days (on a cumulative basis). As of December 31, 1998, the Pool had a weighted average maturity of 1.12 years (408 days) and its weighted yield was 5.573%. As of June 30, 1998, approximately 21% of the Pool investments matured within 60 days, 30% within 91 days and 36% within 184 days (on a cumulative basis). As of June 30, 1998, the Pool had a weighted average maturity of 1.13 years (412 days) and its weighted yield was 5.92%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the Statewide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio has a duration of .32 years as of December 31, 1998 and the Core portfolio has a duration of 1.64 years as of December 31, 1998. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value .32% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.64% for every 1% increase in market rates. The Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. In general, the composition and value of investments under management in the City's Investment Pool will vary from time to time depending on the cash flow needs of the City, maturity or sale of investments, purchase of new securities and fluctuations in interest rates.

Table 16
SUMMARY OF ASSETS IN THE
CITY OF SAN DIEGO POOLED INVESTMENT FUND
(In Millions of Dollars)
As of December 31, 1998
(Unaudited)

	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total⁽¹⁾</u>
U.S. Treasuries	\$301,711,419	\$303,195,313	29.74%
Federal Agency Securities	461,268,660	464,136,639	45.47
Medium Term Notes (Corporate) ⁽²⁾	115,933,277	116,132,656	11.43
Money Market Instruments ⁽³⁾	124,767,196	124,140,903	12.30
Local Agency Investment Fund	<u>10,747,807</u>	<u>10,747,807</u>	<u>1.06</u>
Total Assets	\$1,014,428,359	\$1,018,353,318	100%

(1) Based on Book Value.

(2) These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.

(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and thrift notes.

The following table presents the information contained above in Table 16 for the year ended June 30, 1998 in order to comply with the Continuing Disclosure Agreement entered into in connection with the issuance of the Series 1997 and the Series 1995 Bonds.

SUMMARY OF ASSETS IN THE
CITY OF SAN DIEGO POOLED INVESTMENT FUND
(In Millions of Dollars)
As of June 30, 1998

	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$338,466,412	\$340,362,500	32.76%
Federal Agency Securities	446,800,723	447,426,973	43.25
Medium Term Notes (Corporate) ⁽²⁾	111,418,808	110,872,229	10.79
Money Market Investments ⁽³⁾	125,897,596	125,979,589	12.19
Local Agency Investment Fund	<u>10,450,169</u>	<u>10,450,169</u>	<u>1.01</u>
Total Assets	\$1,033,033,708	\$1,035,091,460	100%

(1) Based on Book Value.

(2) These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.

(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and thrift notes.

Derivatives

As of December 31, 1998 and since October 14, 1997, the Pool has had no assets invested in structured notes or derivatives. The City Treasurer defines a derivative as a financial instrument whose value is derived from an underlying asset, price, index or rate, e.g. options, futures or interest rate swaps. A structured note is an investment instrument that can contain within its structure various combinations of derivatives such as imbedded calls and interest rate swaps that will offer returns to an investor within a defined set of parameters and interest rate scenarios, e.g. step-ups, multiple-indexed notes, inverse floaters or leveraged constant maturity notes. The City Treasurer does not define fixed rate notes, debentures with call features or single index non-leveraged floating rate notes, e.g. monthly LIBOR plus or minus a spread, as structured notes. The City Treasurer limits structured notes

eligible for purchase to those investments, which at the time of purchase, have no risk of principal loss if held to maturity and offer an estimated return at purchase that exceeds the return on a comparable fixed term investment in the judgment of the City's Investment Officer. The City Treasurer does not permit the purchase of securities that have a negative amortization of principal. In addition, California law prohibits the purchase of inverse floaters, range notes or interest only strips that are derived from pools of mortgages.

Reverse Repurchase Agreements

As of September 30, 1998 and since September 18, 1996, the City has had no reverse repos in the Pool. The Investment Guidelines require that all proceeds of a reverse repo be reinvested in securities whose maturity date or coupon reset date match the maturity on the reverse repo. The Investment Guidelines limit the use of reverse repos to 20% of the base value of the Pool. The City's reverse repo program is monitored daily and reported monthly, as described above under "Oversight and Reporting Requirements."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Webster & Anderson, Oakland, California, Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Co-Bond Counsel are of the further opinion that interest on the Series 1999 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 1999 Bonds is less than the amount to be paid at maturity of such Series 1999 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 1999 Bonds) the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 1999 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 1999 Bonds is the first price at which a substantial amount of such maturity of the Series 1999 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 1999 Bonds accrues daily over the term to maturity of such Series 1999 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 1999 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 1999 Bonds. Owners of the Series 1999 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 1999 Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 1999 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 1999 Bonds is sold to the public.

The Series 1999 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 1999 Bonds. The City and the Authority have covenanted to comply with certain restrictions designed to insure that interest on the Series 1999 Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on

the Series 1999 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 1999 Bonds. The opinion of Co-Bond Counsel assumes compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 1999 Bonds may adversely affect the value of, or the tax status of interest on, the Series 1999 Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Series 1999 Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Indenture, the Installment Purchase Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 1999 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Bond Counsel express no opinion as to any Series 1999 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP and Webster & Anderson.

Although Co-Bond Counsel are of the opinion that interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 1999 Bonds may affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

INDEPENDENT ACCOUNTANTS

The financial statements of the Sewer Revenue Fund for the fiscal years ended June 30, 1998 and 1997, attached hereto as Appendix A to this Official Statement have been audited by Calderon, Jaham & Osborn, independent accountants, as set forth in their report, dated November 24, 1998.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Group ("S&P") and Fitch IBCA, Inc. ("Fitch") have assigned ratings of "Aaa," "AAA" and "AAA," respectively, to the Insured Series 1999 Bonds based upon the issuance of the Policy by Financial Guaranty Insurance Company. See "SECURITY FOR THE SERIES 1999 BONDS - Bond Insurance." Moody's, S&P and Fitch have assigned ratings of "A1," "A" and "A+," respectively, to the Series 1999 Bonds maturing on May 15, 2000 and May 15, 2001 (which Bonds are not insured). Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 99 Church Street, New York, New York 10007; S&P, 25 Broadway, New York, New York 10004; and Fitch IBCA, Inc., One State Street Plaza, New York, New York 10004. Such ratings are not a recommendation to buy, sell or hold the Series 1999 Bonds. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price or marketability of the Series 1999 Bonds. The Authority and the City assume no responsibility either to notify the owners of any proposed change in or withdrawal of any such rating subsequent to the date hereof, or to contest any such revision or withdrawal.

FINANCIAL ADVISORS

Montague DeRose and Associates, Pasadena, California and P.G. Corbin & Company, Inc., Benicia, California, have acted as financial advisor to the City in connection with the issuance of the Series 1999 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

CERTAIN LEGAL MATTERS

The validity of the Series 1999 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Webster & Anderson, Oakland, California, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is attached as Appendix E. Co-Bond Counsel, as such, undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters are subject to the approval of Casey Gwinn, Esq., the City Attorney of the City of San Diego and General Counsel to the Authority and Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Disclosure Counsel. O'Melveny & Myers LLP has acted as counsel to the Underwriters for specified purposes. O'Melveny & Myers LLP was not engaged to make, and has not made, any investigation relating to, and assumes no responsibility for, the accuracy, completeness or fairness of this Official Statement.

LITIGATION

There is no litigation pending concerning the validity of the Series 1999 Bonds, the corporate existence of the City or the Authority, or the title of the officers to their respective offices.

UNDERWRITING

The Series 1999 Bonds are to be purchased by Bear, Stearns & Co. Inc., NationsBanc Montgomery Securities LLC, The Chapman Company, First Albany Corporation and Prudential Securities, as Underwriters, at a price which includes an underwriters' discount of \$1,465,879.73. The Underwriters are committed to purchase all the Series 1999 Bonds if any are purchased. The Underwriters may offer and sell the Series 1999 Bonds to certain dealers (including depositing the Series 1999 Bonds into investment trusts) and others at prices lower than the offering prices stated on the inside cover of this Official Statement. After the initial public offering, the public offering prices of the Series 1999 Bonds may be changed from time to time by the Underwriters.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Series 1999 Bonds or to any decision to purchase, hold or sell the Series 1999 Bonds and the Authority will not provide any such information. The City has undertaken all responsibilities for any continuing disclosure to Bondholders as described below, and the Authority shall have no liability to the Bondholders of the Series 1999 Bonds or any other person with respect to S.E.C. Rule 15c2-12.

The City has covenanted for the benefit of Bondholders and beneficial owners of the Series 1999 Bonds to provide certain financial information and operating data relating to the City by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends June 30) (the "Annual Report"), commencing with the report for the 1998-99 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Trustee, as the initial dissemination agent (the "Dissemination Agent") on behalf of the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The notices of material events will be filed by the Dissemination Agent on behalf of the City with the Municipal Securities Rulemaking Board, each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX G - "FORM OF

CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

AVAILABILITY OF DOCUMENTS

Copies of the Official Statement, the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Agreement, the City Charter, the Sewer Revenue Fund audited financial statements and additional information relating to the City and the Series 1999 Bonds will be available, upon written request, from the office of the City Clerk, City Administration Building, 202 C Street, MS 2A, San Diego, California 92101. Additional copies of the Official Statement will be made available upon request from the Financial Advisors, c/o Montague DeRose and Associates, 117 East Colorado Boulevard, Suite 440, Pasadena, California 91105, (626) 585-9797.

MISCELLANEOUS

The purpose of this Official Statement is to supply information to prospective buyers of the Series 1999 Bonds. References are made herein to certain documents and reports that are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Series 1999 Bonds. The preparation and distribution of this Official Statement have been authorized by the Authority and the City.

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

By: /s/ Patricia T. Frazier
Authorized Representative

CITY OF SAN DIEGO

By: /s/ Patricia T. Frazier
Authorized Representative

APPENDIX A
AUDITED FINANCIAL STATEMENTS OF THE SEWER UTILITY
FOR YEARS ENDED JUNE 30, 1998 AND JUNE 30, 1997



CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

San Diego • El Centro

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, City Council
and City Manager of the
City of San Diego, California

We have audited the accompanying financial statements of the City of San Diego Sewer Utility as of June 30, 1998 and 1997 and for the years then ended, listed as Exhibits A, B and C in the foregoing table of contents. These financial statements are the responsibility of the City of San Diego management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the financial statements referred to above present only the Sewer Utility Enterprise fund of the City of San Diego and are not intended to present the financial position of the City of San Diego, California and results of its operations and the cash flows of its proprietary and similar trust fund types, in conformity with generally accepted accounting principles.

As discussed in the notes to the general-purpose financial statements, as of July 1, 1997, the City of San Diego Sewer Utility adopted Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

In our opinion, such financial statements present fairly, in all material respects, the financial position of the City of San Diego Sewer Utility at June 30, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 1998, on our consideration of the City of San Diego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The supplemental information included as Exhibit E, Schedule of Allocation for Billing to Metropolitan System Sewer Utility (the "Schedule") has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, such schedule presents fairly, in all material respects, the allocable costs of the Sewer Utility of the City of San Diego, California for the year ended June 30, 1998, in conformity with various criteria specified in each contract with participating agencies.

The scope of our audits did not include the supplemental information listed as Exhibits D & F, Schedules and Tables listed in the foregoing table of contents. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

November 24, 1998

Calderon, Jaham + Osborn

Sewer Utility

BALANCE SHEETS, JUNE 30, 1998 AND 1997

	June 30	
	1998	1997
ASSETS		
UTILITY PLANT:		
Sewerage Plant in Service.....	\$567,885,159	\$556,147,650
Construction Work in Process.....	1,547,507,716	1,330,715,451
Total.....	2,115,392,875	1,886,863,101
Less Accumulated Depreciation.....	180,784,324	166,765,504
TOTAL UTILITY PLANT - NET.....	1,934,608,551	1,720,097,597
ADVANCES TO CITY OF SAN DIEGO INTERNAL SERVICE FUNDS (Note 4).....	11,785,146	10,562,767
CONSTRUCTION GRANTS RECEIVABLE.....	11,729,665	7,341,842
RESTRICTED ASSETS - BOND INTEREST AND REDEMPTION FUNDS:		
Cash with Custodian (Note 2).....	47,446	47,446
TOTAL RESTRICTED ASSETS.....	47,446	47,446
DEFERRED CHARGES.....	20,892,400	21,674,057
CURRENT ASSETS:		
Cash or Equity in Pooled Cash and Investments - Sewer Revenue Fund (Note 2).....	290,775,669	300,527,748
Accrued Interest Receivable.....	3,682,749	4,111,013
Accounts Receivable - Principally from Customers (Less Allowance for Doubtful Accounts of \$458,878 and \$996,700 Respectively).....	34,243,262	29,640,612
Prepaid Expenses.....	35,800,178	190,899,368
Due from Other Funds.....	123,861	3,653,213
TOTAL CURRENT ASSETS.....	364,625,719	528,831,954
TOTAL ASSETS.....	\$2,343,688,927	\$2,288,555,663

See Notes to Financial Statements.

Sewer Utility

EXHIBIT A

LIABILITIES AND EQUITY

LONG-TERM DEBT:

	1998	1997
Installment Purchase Agreement - (Note 3).....	\$818,760,000	\$833,625,000
Loan Payable.....	100,000	100,000
Total.....	818,860,000	833,725,000
Less Due Within One Year.....	15,430,000	14,865,000
TOTAL LONG-TERM DEBT.....	803,430,000	818,860,000

CURRENT LIABILITIES:

Accounts Payable.....	18,546,217	30,533,260
Accrued Payroll.....	2,478,981	1,872,084
Accrued Annual Leave and Sick Leave.....	3,575,812	3,297,174
Accrued SPSP Contributions Payable.....	107,445	88,671
Pension Liability.....	264,871	0
Liability Claims.....	2,790,546	1,568,113
Matured Long-Term Debt.....	47,446	47,446
Interest Accrued on Long-Term Debt.....	5,138,474	5,209,061
Long-Term Debt Due Within One Year.....	15,430,000	14,865,000
TOTAL CURRENT LIABILITIES.....	48,379,792	57,480,809

DEFERRED CREDITS:

Deferred Contributions in Aid of Construction.....	2,913,967	465,319
Metropolitan Sewer Capacity Service Charge.....	244,302	291,586
Deferred Developers Deposits.....	8,381,076	7,587,007
TOTAL DEFERRED CREDITS.....	11,539,345	8,343,912

TOTAL LIABILITIES.....	863,349,137	884,684,721
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COMMITMENTS AND CONTINGENCIES (Notes 3 and 7)

EQUITY:

Contributions in Aid of Construction:		
Federal.....	187,225,496	171,977,892
State.....	22,890,120	22,206,403
Municipal.....	44,838,684	44,484,964
Local.....	9,476,799	9,476,799
Developers.....	306,892,964	301,724,272
Capacity Charge.....	220,592,723	204,455,883
Other.....	18,861,862	18,861,862
Total Contributions in Aid of Construction.....	810,778,648	773,188,075

Retained Earnings:

Invested in Assets of the System.....	580,730,402	590,682,867
Rate Stabilization Reserve.....	45,000,000	40,000,000
Designated for Future Years' Capital Projects and Operations.....	43,830,740	0
Total Retained Earnings.....	669,561,142	630,682,867

TOTAL EQUITY.....	1,480,339,790	1,403,870,942
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TOTAL LIABILITIES AND EQUITY.....	\$2,343,688,927	\$2,288,555,663
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Sewer Utility

STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

EXHIBIT B

	Year Ended June 30	
	1998	1997
OPERATING REVENUES:		
Sewer Service Charges:		
Inside City:		
Domestic.....	\$108,863,152	\$103,303,691
Commercial and Industrial.....	45,881,035	42,062,881
Outside City:		
Domestic, Commercial and Industrial.....	9,151	10,005
Treatment Plant Service for Others	49,612,651	72,298,312
Total Sewer Service Charges.....	204,365,989	217,674,889
Other Operating Revenues:		
Operating Grants.....	0	(193,284)
Miscellaneous (Net).....	2,068,870	1,152,563
TOTAL OPERATING REVENUES.....	206,434,859	218,634,168
OPERATING EXPENSES (Note 4).....	146,857,627	130,723,373
OPERATING INCOME.....	59,577,232	87,910,795
NONOPERATING REVENUES (EXPENSES):		
Interest Income (Note 2).....	19,338,425	16,311,684
Gain (Loss) on Sale/Retirement of Fixed Assets.....	63,189	5,060,876
Interest Expense - Installment Purchase Agreement (Note 3).....	(38,653,904)	(31,184,467)
Financing Costs Under Installment Purchase Agreement.....	(781,658)	(1,208,207)
Non-Operating Grants.....	25,054,559	42,678,235
Other.....	(25,655,496)	(40,984,517)
TOTAL NONOPERATING REVENUES (EXPENSES).....	(20,634,885)	(9,326,396)
Operating Transfer In.....	33,239	127,835
Operating Transfer Out.....	(694,853)	(1,425,132)
NET INCOME.....	38,280,733	77,287,102
Retained Earnings at Beginning of Year.....	630,682,867	553,395,765
Cumulative Effect of a Change in Accounting Principle (Note 8).....	597,542	0
Retained Earnings at Beginning of Year as Restated.....	631,280,409	553,395,765
RETAINED EARNINGS AT END OF YEAR.....	\$669,561,142	\$630,682,867

See Notes to Financial Statements.

Sewer Utility

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

EXHIBIT C

	Year Ended June 30	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss).....	\$59,577,232	\$87,910,795
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization.....	15,827,597	14,301,399
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable.....	(4,602,650)	(5,389,124)
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits.....	(4,329)	16,284
Increase (Decrease) in Accounts Payable.....	(11,987,043)	(15,077,096)
Increase (Decrease) in Accrued Payroll.....	606,897	376,950
Increase (Decrease) in Accrued Annual Leave and Sick Leave.....	278,638	(412,553)
Increase (Decrease) in Accrued SPSP Contributions Payable.....	18,774	(3,725)
Increase (Decrease) in Liability Claims.....	1,222,433	(290,000)
Increase (Decrease) in Deferred Revenue.....	3,195,433	(36,872,112)
Increase (Decrease) in Pension Liability.....	264,871	0
Other Nonoperating Revenue.....	(25,655,496)	(40,984,517)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	38,742,357	3,576,301
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Transfers In (Out) to Other Funds.....	(661,614)	(1,297,297)
Operating Grants.....	(4,387,823)	6,024,443
Proceeds from (Payments for) Advances and Deposits.....	(1,222,379)	(1,757,093)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	(6,271,816)	2,970,053
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Installment Purchase Agreement.....	159,414,528	243,831,841
Proceeds from Contributed Capital.....	32,421,881	26,690,039
Proceeds from Non-Operating Grants.....	25,054,559	42,678,235
Acquisition of Fixed Assets.....	(225,106,670)	(303,821,682)
Proceeds from Sale of Fixed Assets.....	0	4,030
Principal Paid on Long-Term Debt.....	(14,865,000)	(4,660,000)
Interest Paid on Long-Term Debt.....	(39,506,149)	(30,821,451)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	(62,586,851)	(26,098,988)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Purchases) Sales of Investments.....	0	(6,455,436)
Interest and Dividends Received on Investments.....	20,364,231	15,680,737
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	20,364,231	9,225,301
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(9,752,079)	(10,327,333)
Cash and Cash Equivalents at Beginning of Year.....	300,575,194	310,902,527
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$290,823,115	\$300,575,194

See Notes to Financial Statements.

Sewer Utility

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED June 30, 1998

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sewer Utility is included in the administrative organization of the City of San Diego (the "City"); its financial information and records are established and maintained by the City.

The accounting policies of the Sewer Utility conform to Generally Accepted Accounting Principles ("GAAP") as applicable to governmental units. The following is a summary of the more significant of such policies:

a. Basis of Presentation

The financial activities of the Sewer Utility are accounted for and reported as an Enterprise Fund of the City. The measurement focus is upon determination of net income, financial position and changes in cash flows.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Sewer Utility adopts all FASB statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

b. Basis of Accounting

The Sewer Utility uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Estimated unbilled revenues are recognized at the end of each fiscal year. This estimated amount is based on billings during the month following the close of the fiscal year.

c. Cash and Investments

At July 1, 1997, the City of San Diego adopted Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires certain investments to be reported at fair value. At June 30, 1998, all such investments are presented at fair value.

d. Utility Plant

Utility plant in service and land are stated at estimated cost based on amounts appraised on July 1, 1959, plus subsequent additions generally at cost or, in the case of contributions in aid of construction, at cost or appraised value at the date of contribution. The utility plant is depreciated by the straight-line method over estimated useful lives of three to seventy-five years.

Sewer Utility

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Employee Annual Leave

The Sewer Utility provides combined annual leave to cover both vacation and sick leave. It is the Sewer Utility's policy to permit employees eligible for the Management Benefits Plan to accumulate up to 17.5 weeks of earned but unused annual leave and all other employees to accumulate up to 15 weeks of earned but unused annual leave. Accumulation of these earnings will be paid to employees upon separation from service. Excess accumulated annual leave amounts not used by employees are forfeited on an annual basis.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975 is payable upon separation under the following conditions: 1) 50% of the employee's accrued amount upon retirement or death, or 2) 25% of the employee's accrued amount upon resignation. Annual leave benefits are recorded as a liability in the period earned by the employee.

f. Claims and Judgments

Costs of claims and judgments are recorded when the liability is incurred and measurable.

g. Contributions in Aid of Construction

Additions to contributions in aid of construction (approximately \$37,591,000 in 1998 and \$33,964,000 in 1997) represents facilities or cash contributed for facility construction by property owners or government agencies. Cash contributions in aid of construction for meters and service are classified as deferred credits until the facilities have been installed.

h. Statement of Cash Flows

All of the Sewer Utility's "Cash with Custodian" and "Cash or Equity in Pooled Cash and Investments" are classified as cash and cash equivalents.

i. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of certain asset and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

2. CASH AND INVESTMENTS

a. Cash with Custodian

Cash with Custodian represents funds held by a bank trustee on behalf of the Sewer Utility for the payment of principal and interest to bondholders. Since such cash is held by the bank's trust department, it is not covered by federal depository insurance or collateralized by securities owned by the bank.

Sewer Utility

2. CASH AND INVESTMENTS (Continued)

b. Cash or Equity in Pooled Cash and Investments

Other cash resources of the Sewer Utility are combined with the cash resources of the City to form a pool of cash that is managed by the City Treasurer. As provided for by the Government Code, the cash balance of substantially all City funds and certain entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The Sewer Utility's net share of the total pooled cash and investments is included in the accompanying balance sheet under the captions "Cash or Equity in Pooled Cash and Investments" and "Obligations under Reverse Repurchase Agreements". Interest earned on pooled investments is deposited to certain of the participating City funds and entities, including the Sewer Utility, based upon each fund's and each entity's average daily deposit balance during the allocation period with all remaining interest deposited to the City's General Fund.

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law, as well as by the City's own written investment policy. Within the context of these limitations, permissible investments include (1) obligations of the U.S. government and federal agencies, (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, (3) bankers' acceptances, (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer and (7) financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation.

c. Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value, the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable. There was no such credit exposure at year-end.

Deposits and investments are generally exposed to two types of risk: credit risk and market risk. Credit risk is the risk that a governmental entity will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. Market risk is the risk that the value of an investment will decline.

In accordance with governmental reporting standards, the Sewer Utility has classified its deposits and investments by categories of credit risk. Classification in category 1 indicates that the exposure to potential credit risk is low. The level of potential credit risk is higher for those classified in category 2, and highest for those in category 3.

Sewer Utility

2. CASH AND INVESTMENTS (Continued)

Deposits may be categorized as follows: (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name, (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entities name, (3) Uncollateralized.

Investments may be categorized as follows: (1) Insured or registered, or securities held by the entity or its agent in the entity's name, (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name, (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Aggregate cash with custodian and cash or equity in pooled cash and investments are as follows at June 30, 1998:

	<u>Total</u>
Cash or Equity in Pooled Cash and Investments	\$290,775,669
Cash with Custodian	<u>47,446</u>
Total	<u>\$290,823,115</u>

Information pertaining to the City's cash and investment pool may be found in the City's Comprehensive Annual Financial Report.

The Sewer Utility's cash and investments at June 30, 1998, that can be specifically identified as to credit risk are categorized below:

	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
<u>Deposits</u>				
Uninsured and Uncollateralized	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$47,446</u>	<u>\$47,446</u>

3. LONG-TERM DEBT

Long-term debt as of June 30, 1998 and 1997 is comprised of the following:

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding</u>	
				<u>June 30, 1998</u>	<u>June 30, 1997</u>
Installment Purchase Agreement Payable, 1997	3.70-5.61%	2027	\$250,000,000	\$246,095,000	\$250,000,000
Installment Purchase Agreement Payable, 1995	3.95-5.31	2025	350,000,000	343,860,000	350,000,000
Installment Purchase Agreement Payable, 1993	2.8-5.25	2023	250,000,000	228,805,000	233,625,000
Loan Payable to County of San Diego	0	NA	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total Long-Term Debt			<u>\$850,100,000</u>	<u>\$818,860,000</u>	<u>\$833,725,000</u>

Sewer Utility

3. LONG-TERM DEBT (Continued)

The following is a summary of changes in general long-term debt for the year ended June 30, 1998:

	<u>Balance July 1, 1997</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1998</u>
Installment Purchase Agreement Payable 1997	\$250,000,000	\$0	\$ 3,905,000	\$246,095,000
Installment Purchase Agreement Payable, 1995	350,000,000	0	6,140,000	343,860,000
Installment Purchase Agreement Payable, 1993	233,625,000	0	4,820,000	228,805,000
Loan Payable to County of San Diego	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>100,000</u>
Total	<u>\$833,725,000</u>	<u>\$0</u>	<u>\$14,865,000</u>	<u>\$818,860,000</u>

Annual requirements to amortize long-term debt as of June 30, 1998, including interest payments to maturity are as follows:

<u>Year Ending June 30.</u>	<u>Installment Purchase Agreement</u>
1999	\$ 56,537,795
2000	56,544,645
2001	56,541,595
2002	56,541,531
2003	56,535,617
Thereafter	<u>1,244,490,136</u>
Total	1,527,191,319
Less - Amounts Representing Interest	<u>(708,431,319)</u>
Net Installment Purchase Agreement	<u>\$ 818,760,000</u>

The City has an installment purchase agreement with the Public Facilities Financing Authority "Authority" for the acquisition, construction, installation, and improvement of its wastewater system. The Authority obtained financing for the project through the issuance of bonds secured by installment payments made to the Authority by the City. The City has pledged revenues from its wastewater system to finance these installment payments in an amount equal to the principal and interest requirements of the associated bonds.

4. TRANSACTIONS WITH THE CITY OF SAN DIEGO

The Sewer Utility has financed the acquisition by the City's Internal Service Funds of certain vehicles and supplies used by the Sewer Utility. The Internal Service Funds charge the Sewer Utility for the use of the vehicles and supplies. However, there is no specific provision for the repayment of these advances or interest on them. It is the City's general intent that the advances be repaid as the financial condition of the Internal Service Funds permit. Some repayments have been made in prior years. Included in operating expenses is approximately \$4,365,000 in 1998 and \$3,561,000 in 1997 charged by the City to the Sewer Utility for indirect general government expenditures incurred by the City. Such charges are based on a pro-rata portion of indirect general government expenditures applicable to the Sewer Utility.

Sewer Utility

4. TRANSACTIONS WITH THE CITY OF SAN DIEGO (Continued)

A portion of the utility plant, known as the Metropolitan Sewer System, was financed through a Federal grant. The grant was made to the Sewer Utility and participating cities and sanitation districts served by the System. Grant funds received by the Sewer Utility through participating agencies pay the Sewer Utility for contracted capacity rights and share in the maintenance and operating costs.

The Sewer Utility provides sewer services to the City at commercial rates. Such revenues were approximately \$2,046,000 in 1998 and \$1,254,000 in 1997.

The Sewer Utility paid approximately \$11,219,000 in 1998 and \$8,428,000 in 1997 for computer services provided by the San Diego Data Processing Corporation, a non-profit corporation, of which the City is the sole member.

The Sewer Utility paid \$7,761,053 in 1998 and \$8,949,120 in 1997 to the city for right-of-way impact assessment charges for the use of public rights of way for sewage collection systems.

5. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees.

DEFINED BENEFIT PLAN

a. Plan Description

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the San Diego City Employees' Retirement System ("SDCERS").

SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members.

In 1963, through an agreement between the City and the District, employees of the District became members of SDCERS.

The Plan is a defined benefit plan which covers all eligible employees of the City and the District. The Plan is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, the length of membership service and the member's final compensation earnable based on the highest one-year period.

The Plan provisions applicable to general members are generally applicable to the District's general members and those applicable to lifeguard members are generally applicable to the District's safety members.

All full-time City and District employees are eligible to participate in the Plan. Salaried classified employees become members of the system upon employment. Salaried unclassified employees hired on or after August 11, 1995 become members upon employment.

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a pension trust fund.

Sewer Utility

5. PENSION PLANS (Continued)

SDCERS issues a stand-alone financial report which is available at its office located at 401 B Street, Suite 400, San Diego, California 92101.

b. Funding Policy

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (23 years remaining).

Employees are required to contribute a percentage of their annual salary to the Plan. Contributions vary according to age at entry into the plan and salary. The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. Prior to June 30, 1993, contributions were based on the entry age normal cost method of valuation.

During the period July 1, 1997 to June 30, 1998 contributions totaling \$57,018,000 (\$32,800,000 employer and \$24,218,000 employee) were made. Of the employer contributions, \$26,142,000 was applied to normal cost and \$6,658,000 was applied to unfunded accrued liability. All of the employer offset contributions were applied to normal cost.

In 1996 the City Council approved proposed changes to the San Diego City Employees' Retirement System (SDCERS) which included changes to retiree health insurance, plan benefits, employer contribution rates and system reserves. The proposal included a provision to assure the funding level of the system would not drop below a level the Board's actuary deems reasonable in order to protect the financial integrity of the SDCERS. A citizen required vote on the changes related to retiree health insurance passed overwhelmingly in 1996. In 1997 the active members of the SDCERS voted and approved the changes. Portions of the proposal requiring SDCERS Board approval (employer rates and reserves) were approved after review and approval by its independent fiduciary counsel and consultation with the actuary. The San Diego Municipal Code was then amended to reflect the changes.

The changes provide the employer contribution rates be "ramped up" to the actuarially recommended rate in .50 percent increments over a ten year period at such time it was projected that the Projected Unit Credit (PUC) and Entry Age Normal (EAN) rates would be equal and the SDCERS would convert to EAN. The actuary calculated the present value of the difference between the employer contribution rate and actuarial rates over the ten year period and this amount was funded in a reserve. This "Corridor" funding method is unique to the SDCERS and therefore is not one of the six funding methods formally sanctioned by the Governmental Accounting Standards Board for expending purposes. As a result for June 30, 1998, the actuary rates are reported to be \$5,975,000 more than paid by the City which, technically per GASB 27 effective for periods beginning after June 15, 1997, is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve. The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO.

Sewer Utility

5. PENSION PLANS (Continued)

c. Annual Required Contribution

The annual required contribution for the current year was determined as part of the June 30, 1996 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) projected salary increases of 5% per year. Both (a) and (b) included an inflation rate of 4.5%. The asset value used in determining the employer contribution rate reflects a portion of the unrealized gain or loss in assets. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 1998 was 23 years.

d. Three-Year Trend Analysis

The following table shows the City and the District's required contributions and the percentage contributed for the most current year available and preceding year (in thousands):

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/96	\$26,122	100.0%	\$ 0
6/30/97	34,036	82.4	5,975

Three year trend information will be presented beginning in Fiscal Year 1999.

DEFINED CONTRIBUTION PLANS

- a. Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan ("SPSP"), a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, which provides pension benefits for eligible full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month. Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4.5% and 3.05%, respectively, of total salary.

The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement.

The City and the covered employees contributed approximately \$34,083,000. As of June 30, 1998, fair value of Plan assets totaled approximately \$318,885,000. SPSP is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

In addition, the City established a 401(k) Plan effective July 1, 1985. The plan is a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, to provide pension benefits for all eligible full-time employees. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program.

Sewer Utility

5. PENSION PLANS (Continued)

The employees' 401(k) contributions were calculated pursuant to various combination arrangements. The covered employees and the City contributed approximately \$9,038,000 during the fiscal year.

As of June 30, 1998, fair value of Plan assets totaled approximately \$63,082,000. The 401(k) Plan is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as an Agency Fund.

6. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain health care insurance benefits for retired general and safety members of SDCERS who retired on or after October 6, 1980. At June 30, 1998, approximately 2,627 eligible retirees received benefits.

Certain health care insurance benefits were established during Fiscal Year 1995 for eligible retirees who retired prior to October 6, 1980 or who were otherwise not eligible to receive City-paid health care insurance as of June 30, 1994. At June 30, 1998, approximately 1,989 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1998, expenditures of approximately \$4,538,000 were recognized for such health care benefits.

Substantially all of the City's general and safety members of SDCERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

7. COMMITMENTS AND CONTINGENCIES

The Sewer Utility's construction plans for various projects are estimated to cost approximately \$167,607,000. As of June 30, 1998, the Utility's contractual commitments for the projects totaled approximately \$132,679,000. The Utility intends to finance the contractual commitments with approved State and Federal grants, service charges and the Installment Purchase Agreement.

The Sewer Utility is self-insured for general liability claims. At June 30, 1998, the Sewer Utility has recorded approximately \$1,759,000 for such claims. These amounts represent the Utility's determination of the probable ultimate cost of the claims.

The Sewer Utility operates an Owner Controlled Insurance Program to provide workers compensation, general liability, builders risk and excess liability insurance for its construction contracts. This program eliminates the requirement that contractors and subcontractors obtain their own separate policy.

8. CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 1, the City adopted GASB 31 in Fiscal Year 1998. As a result, accounting changes have been implemented to conform to this new accounting principle. The City determined that restatement of prior year financial statements is not practical. As such, the changes in fair value of previously reported investments are presented in the financial statements as an adjustment to Fiscal Year 1998 beginning fund balances as the cumulative effect of a change in accounting principle.

Sewer Utility

9. YEAR 2000 EFFORTS

Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures About Year 2000 Issues, requires disclosure of certain matters regarding the Year 2000 ("Y2K") issue. The City has included such disclosures in the following paragraphs. Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, the City's disclosures with respect to the Y2K issue cannot provide assurance that the City is or will be year 2000 ready, that the City's Y2K remediation efforts will be successful in whole or in part, or that parties with which the City does business will be year 2000 ready.

The Y2K issue stems from the inability of some computer systems to function correctly with the dates of the year 2000 or beyond, in data, calculations, or even internal clocks. Problems can occur before the year 2000, when future dates are encountered in data or calculated. An organization's ability to serve its customers may be directly or indirectly affected by such problems in its own computer systems, others' computer systems, or even devices not recognized as computers but controlled by hidden computer components.

The City began its Y2K preventative efforts earlier than many organizations, public and private. During fiscal year 1998, the City had approximately \$3,247,000 in expenditures relating to the Y2K compliance issue, and has budgeted approximately \$4,367,000 for expenditures in fiscal year 1999. These amounts do not include unpredictable items such as the replacement of non-compliant proprietary software used by certain departments nor some non-compliant embedded systems not known to be non-compliant at this time. The City's Y2K efforts have been segregated into three categories; 1) Networked Application Software, including user applications residing on mainframe computers maintained by the San Diego Data Processing Corporation ("SDDPC"), 2) Desktop Computer Hardware and Software, including local area networks ("LAN"), and 3) Embedded Computer Systems such as traffic controllers, heaters, air conditioners, elevators, fire/security systems, etc. Following is the City's position with regards to the stages of completion of their Y2K efforts:

Awareness Stage - A Y2K project team was established by the City, SDDPC and competitively selected consultants ("the Project Team") to assist in the assessment of the Y2K issue as it relates to the City. The consultants were chosen due to their proven methods and software tools for assessment of Y2K impacts, magnitudes of corrective work, and risks, as well as availability of skilled programmers and track record of successfully completed Y2K corrective work for major corporations.

Assessment Stage - A complete inventory of the networked application software was done in 1996 by SDDPC. Instructions have been distributed for each City department to survey its desktop computers and LAN hardware and software using the model-specific information which has been gathered, plan for the minor upgrades or replacement of older computers remaining. Information has also been gathered from the well-known publishers of software used on the City's desktop computers and LAN servers, and verified for the most critical applications. Instructions have been distributed for departments to plan for upgrades where needed, and to examine any internally developed applications.

Remediation Stage - The assessment of the networked application software was completed at the end of July 1997, and indicated that about three million lines of computer code would need to be analyzed in more detail and possibly modified. To date, programs totaling almost one million lines of code have been analyzed, modified, tested and returned to service. Other programs totaling approximately 1.8 million lines of code were analyzed and found to need no modifications. This analysis of the networked application software is scheduled to be completed by June 1999.

Sewer Utility

9. YEAR 2000 EFFORTS (Continued)

Validation/Testing Stage - Desktop and LAN systems have been purchased over the past several years from "first-tier" manufacturers, who have used basic input & output system programs ("BIOS") that can be easily upgraded to take advantage of new Y2K enhancements. These vendors have provided information on the Y2K readiness of the models purchased and the BIOS upgrades available for those which are not currently Y2K compliant. The City's newest wastewater collection and treatment facilities have been deemed Y2K compliant by the manufacturer, but will be thoroughly examined for compliance. The smaller, more localized embedded systems are scheduled to be tested in the coming year, and are considered to be easily upgradable should non-compliance be found.

Implementation Stage - As discussed in the Remediation Stage above, many of the networked applications have been tested and returned to service, as have the majority of the desktop systems and applications. Many of the systems with embedded chips will simply need to be reset upon the coming of the year 2000, including traffic control systems. These embedded systems will be tested further by a firm contracted to do so which has already gathered much information regarding the Y2K compliance of such systems.

The City's Y2K efforts also include assessing the readiness of its business partners, including vendors, manufacturers, and service providers. These business partners have been or are being contacted to ensure that they will continue to deliver equipment, supplies and services as needed by the City subsequent to the year 2000. If the City cannot be reasonably assured that these critical partners will be Y2K compliant and thus be able to meet its needs, alternative sources will be identified and/or contingency plans will developed to mitigate the risks of possible disruptions.

Sewer Utility

NET REVENUE AVAILABLE FOR DEBT SERVICE FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

EXHIBIT D

UNAUDITED

	Year Ended June 30	
	1998	1997
TOTAL OPERATING REVENUES (Exhibit B)	\$206,434,859	\$218,634,168
OPERATING EXPENSES:		
Transmission.....	44,422,508	35,745,840
Treatment and Disposal Plant.....	43,725,429	37,709,123
Accounting.....	5,927,117	4,434,608
General and Administrative.....	37,011,963	38,532,403
TOTAL OPERATING EXPENSES	131,087,017	116,421,974
OPERATING INCOME	75,347,842	102,212,194
OTHER INCOME (CHARGES):		
Capital Grant Receipts.....	37,552,666	67,343,104
Operating Transfer In/(Out).....	(661,614)	(1,297,297)
Capacity Charge Municipal System.....	16,136,839	8,062,617
Interest Income.....	19,338,425	16,311,684
Rate Stabilization Reserve.....	(5,000,000)	(30,000,000)
Other Income.....	(25,655,496)	(40,984,517)
TOTAL OTHER INCOME	41,710,820	19,435,591
NET REVENUE AVAILABLE FOR DEBT SERVICE (As Defined by Bond Ordinance)	\$117,058,662	\$121,647,785

DEBT SERVICE COVERAGE

(Earnings Times Debt Service)

The Principal and Interest Due in Fiscal Year Ending June 30, 1998
(\$56,537,491) Covered.....

2.07

The Principal and Interest Due in Fiscal Year Ending June 30, 1997
(\$37,441,098) Covered.....

3.25

Sewer Utility

EXPENSES
ALLOCATION FOR BILLING TO METROPOLITAN SYSTEM
FOR THE YEAR ENDED JUNE 30, 1998

EXHIBIT E

	Operating Expenses		
	Municipal System	Metropolitan System	Total
TRANSMISSION:			
Cleaning and Stoppage Removals, Mains and Laterals.....	\$7,580,207	\$0	\$7,580,207
Accrued Claims.....	1,758,961	0	1,758,961
Maintenance of Laterals.....	1,309,750	0	1,309,750
Maintenance of Mains and Manholes.....	13,311,649	438,617	13,750,266
Sewage Pumping Stations.....	11,974,906	0	11,974,906
Metro Pump Station #1.....	0	2,878,608	2,878,608
Metro Pump Station #2.....	0	5,169,810	5,169,810
TOTAL TRANSMISSION.....	35,935,473	8,487,035	44,422,508
TREATMENT AND DISPOSAL:			
Cogeneration Facilities.....	0	855,565	855,565
Point Loma Plant.....	0	12,182,747	12,182,747
North City Water Reclamation Plant.....	0	5,284,163	5,284,163
Fiesta Island Sludge Disposal Plant.....	0	9,440,314	9,440,314
Metro Biosolid Center.....	0	4,226,047	4,226,047
South Bay Water Reclamation Plant.....	0	367,696	367,696
Escondido System.....	1,147,463	0	1,147,463
Sewage Testing and Control.....	4,599,741	0	4,599,741
Wastewater Chemistry.....	0	3,060,961	3,060,961
Biology/Ocean Operations.....	0	2,560,732	2,560,732
TOTAL TREATMENT AND DISPOSAL.....	5,747,204	37,978,225	43,725,429
ACCOUNTING SERVICES:			
General Accounting.....	311,619	0	311,619
Utility Commercial.....	5,615,498	0	5,615,498
TOTAL ACCOUNTING SERVICES.....	5,927,117	0	5,927,117
GENERAL, ADMINISTRATIVE AND TAXES:			
Utilities Administration and General Expenses.....	10,748,207	12,774,813	23,523,020
Technical Services Administration.....	0	2,582,790	2,582,790
Central Support Facility.....	0	155,336	155,336
Expenses of Other City Departments Applicable to Sewerage Utility.....	941,175	5,081,905	6,023,080
Engineering Expenses.....	1,816,665	3,605,926	5,422,591
TOTAL GENERAL, ADMINISTRATIVE AND TAXES.....	13,506,047	24,200,770	37,706,817
TOTAL EXPENSES.....	61,115,841	70,666,030	131,781,871
METROPOLITAN SYSTEM CAPITAL IMPROVEMENT EXPENSE (Note 4).....	0	175,371,400	175,371,400
METROPOLITAN SYSTEM CAPITAL IMPROVEMENT INCOME CREDITS (Note 4).....	0	(118,548,003)	(118,548,003)
DEBT SERVICE ALLOCATION (Note 5).....	4,085,381	46,029,535	50,114,916
METROPOLITAN SYSTEM INCOME CREDITS (Note 6).....	0	(1,053,440)	(1,053,440)
TOTAL ALLOCATION FOR BILLING PURPOSES.....	\$65,201,222	\$172,465,522	\$237,666,744

See Notes to Allocation for Billing to Metropolitan System

Sewer Utility

NOTES TO THE ALLOCATION FOR BILLING TO METROPOLITAN SYSTEM SCHEDULE

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of San Diego Sewer Utility is a fund of the City of San Diego.

The City of San Diego Sewer Utility operates and maintains the Metropolitan Wastewater System and the Municipal Wastewater Collection System (the "System"). The System operates in the collection and transportation of untreated raw sewage for the City of San Diego, as well as other municipalities and water districts (the "Participating Agencies"). Contractual agreements have been entered into by each Participating Agency with the City of San Diego for their usage and upkeep of the System.

2. BASIS OF PRESENTATION

The accompanying allocation of Billing to Metropolitan System of the Sewer Utility of the City of San Diego, California was prepared for the purpose of determining the total amount to be billed to Participating Agencies for the fiscal year ended June 30, 1998. Generally, the criteria specified in each contract specifies the allowable and unallowable costs that are includable or excludable from the amounts billed.

The Schedule is not intended to be a presentation in conformity with generally accepted accounting principles, nor does it present the financial position or the results of operations of the City of San Diego Sewer Utility or City of San Diego taken as a whole.

3. PARTICIPATING AGENCIES

The Participating Agencies consist of the following municipalities and water districts:

- | | |
|-------------------|-----------------|
| • Chula Vista | • Lemon Grove |
| • Coronado | • National City |
| • Del Mar | • Otay |
| • El Cajon | • Padre Dam |
| • Imperial Beach | • Poway |
| • La Mesa | • Spring Valley |
| • Lakeside/Alpine | • Wintergardens |

4. METROPOLITAN SYSTEM CAPITAL IMPROVEMENT EXPENSE

Construction costs incurred during the fiscal year to maintain and improve the Metropolitan Sewer System and equipment purchases used in the maintenance of the system are included in capital improvement expense.

Metropolitan System Capital Improvement income credits include contributions in aid of construction received from federal and state granting agencies and reimbursements from bond proceeds.

Sewer Utility

5. DEBT SERVICE ALLOCATION

Debt service allocation is that portion of the principal and interest payments relating to the 1993, 1995 and 1997 bond issuance.

6. METROPOLITAN SYSTEM INCOME CREDITS

Metropolitan system income credits are revenues earned by the Metropolitan Systems for which costs have been incurred during the current or previous fiscal years.

7. TOTAL ALLOCATION FOR BILLING PURPOSES

Costs to be billed include all individual construction projects and operation and maintenance expenses attributable to the Metropolitan System. Costs are proportioned back to individual agencies based on their percentage of each of the totals of flow, suspended solids, and chemical oxygen demand (COD). Each Participating Agency and the City of San Diego are sampled quarterly and the plants are sampled daily. The percentages are determined from cumulative samples and monitored flow.

For construction projects, percentages were allocated to flow, suspended solids and COD based on each of the project's design and function. The percentages were weighted by total project cost and combined to determine the final three derived percentages. Total annual costs are then allocated based on the three derived percentages and the measured flow, suspended solids and COD of each agency.

Operations and maintenance (O&M) costs as a percentage of flow, suspended solids and COD were evaluated based on four cost categories: pump stations, plant operations, technical services, and cogeneration. These percentages were weighted by the annual O&M cost for each category, and combined to determine a derived percentage for administrative costs. All O&M costs were then allocated based on the measured flow, suspended solids and COD of each agency.

Sewer Utility

CHANGES IN FUNDS AVAILABLE FOR APPROPRIATION FOR THE YEAR ENDED JUNE 30, 1998

EXHIBIT F

UNAUDITED

Funds Available for Appropriation at July 1, 1997.....	\$0
Add:	
Cash Receipts (Schedule F-1).....	437,192,893
Anticipated Contributions from Other Agencies at June 30, 1998.....	30,693,793
Accrued Annual Leave and Sick Leave at July 1, 1997.....	3,297,173
Operating Reserve at June 30, 1997.....	16,316,473
Emergency Reserve at June 30, 1997.....	5,000,000
Rate Stabilization Reserve at June 30, 1997.....	40,000,000
Continuing Appropriations at July 1, 1997.....	137,749,572
Continuing Appropriations Encumbered at July 1, 1997.....	91,074,989
Designated for Subsequent Years' Capital Projects and Operations at June 30, 1997.....	0
Prior Years' Encumbrances Cancelled.....	13,684,838
Total Balances and Additions.....	775,009,731
Deduct:	
Expenditures and Encumbrances (Schedule F-2).....	589,740,839
Anticipated Contributions from Other Agencies at July 1, 1997.....	35,670,709
Accrued Annual Leave and Sick Leave at June 30, 1998.....	3,575,812
Operating Reserve at June 30, 1998.....	16,868,798
Emergency Reserve at June 30, 1998.....	5,000,000
Rate Stabilization Reserve at June 30, 1998.....	45,000,000
Designated for Subsequent Years' Capital Projects and Operations at June 30, 1998.....	43,830,740
Continuing Appropriations at June 30, 1998.....	35,322,833
Total Deductions.....	775,009,731
FUNDS AVAILABLE FOR APPROPRIATION AT JUNE 30, 1998.....	\$0

The Sewer Revenue Fund (Municipal Code Sec. 64.31) is used to account for the receipts, expenditures, and revenue derived from operation of the sewer system of the Water Utilities Department. The Charter, Sec. 90.2 Sub. 8B, provides that "all revenues shall be paid into the Sewer Revenue Fund and shall be used for the following purposes: (1) paying the cost of maintenance and operation of the sewer system; (2) paying principal and interest (including payments into any reserve or sinking fund) and premiums, if any, upon redemption, of sewer revenue bonds issued under this section and payable from said Sewer Revenue Fund; (3) paying all or any part of the cost and expense of extending, reconstructing, or improving the sewer system or any part thereof or making additions to such system; (4) transferring from any surplus in the Sewer Revenue Fund to the Capital Outlay Fund, at one time or from time-to-time, all or any part of the sums expended from said Capital Outland Fund after July 1, 1960, for any purpose for which revenue bonds may be issued under this section; (5) paying from any surplus in the Sewer Revenue Fund principal or interest, or both, or any part thereof, of general obligation bonds heretofore or hereafter issued for any purpose for which revenue bonds may be issued under this section.

Sewer Utility

CHANGES - PLANT IN SERVICE
FOR THE YEAR ENDED JUNE 30, 1998

SCHEDULE A-1

UNAUDITED

	Balance at July 1, 1997	Additions	Retirements	Balance at June 30, 1998
MUNICIPAL SEWERAGE SYSTEM:				
Land and Land Rights:				
Sewer Mains.....	\$512,148	\$0	\$0	\$512,148
Pumping Systems.....	2,319,379	0	1,601	2,317,778
Treatment and Disposal.....	467	0	0	467
Sewer Service Laterals.....	60,784,521	1,074,856	20,290	61,839,087
Sewer Mains.....	358,239,931	8,380,657	56,617	366,563,971
Meters and Measuring Devices:				
Structures and Improvements.....	220,300	0	177,340	42,960
Equipment.....	25,513	188,540	11,200	202,853
Pumping System:				
Structures and Improvements.....	8,733,546	742,838	7,000	9,469,384
Equipment.....	1,697,770	0	0	1,697,770
Treatment and Disposal Plant:				
Capacity Rights:				
City of Escondido Sewerage System.....	4,474,873	0	0	4,474,873
Laboratory and Office Furniture and Equipment.....	443,586	13,142	14,145	442,583
General Plant:				
Structures and Improvements.....	229,077	122,603	0	351,680
Office Furniture and Equipment.....	4,468,146	879,232	505,360	4,842,018
Portable Equipment.....	737,214	22,465	36,260	723,419
TOTAL MUNICIPAL SEWERAGE SYSTEM.....	442,886,471	11,424,333	829,813	453,480,991
METROPOLITAN SEWERAGE SYSTEM:				
Land and Land Rights:				
Interceptor Mains.....	589,780	0	0	589,780
Pumping System.....	49,605	0	0	49,605
Treatment and Disposal Plants.....	2,360,029	0	1,499,707	860,322
Interceptor Mains.....	37,853,447	1,499,707	0	39,353,154
Pumping System:				
Structures and Improvements.....	6,415,530	0	0	6,415,530
Equipment.....	3,941,893	0	0	3,941,893
Treatment and Disposal Plant:				
Structures and Improvements.....	16,360,746	0	0	16,360,746
Equipment.....	6,391,015	0	0	6,391,015
Laboratory and Office Furniture and Equipment.....	12,015,770	2,009,193	1,127,164	12,897,799
General Transportation Equipment.....	37,650	137,824	0	175,474
General Plant Portable Equipment.....	3,232,818	277,767	12,466	3,498,119
Ocean Outfall Intake:				
Structures and Improvements.....	1,780,965	0	0	1,780,965
Equipment.....	83,765	0	0	83,765
Ocean Outfall Line.....	9,301,041	0	0	9,301,041
Sludge Disposal Line.....	391,232	0	0	391,232
Monitoring Vessels.....	293,772	0	0	293,772
TOTAL METROPOLITAN SEWERAGE SYSTEM.....	101,099,058	3,924,491	2,639,337	102,384,212
CLEAN WATER PROGRAM:				
Land and Land Rights:				
Treatment and Disposal Plants.....	6,657,000	0	0	6,657,000
General Office Furniture and Equipment.....	5,505,121	1,288,322	1,430,487	5,362,956
TOTAL CLEAN WATER PROGRAM.....	12,162,121	1,288,322	1,430,487	12,019,956
TOTAL SEWERAGE PLANT IN SERVICE.....	\$556,147,650	\$16,637,146	\$4,899,637	\$567,885,159

Sewer Utility

INSTALLMENT PURCHASE AGREEMENT REQUIREMENTS FOR PRINCIPAL AND INTEREST
JUNE 30, 1998

SCHEDULE A-2

UNAUDITED

INSTALLMENT PURCHASE AGREEMENT

Fiscal Year	Annual Requirements		
	Principal	Interest	Total
1998-99	\$15,430,000	\$41,107,795	\$56,537,795
1999-2000	16,050,000	40,494,645	56,544,645
2000-01	16,705,000	39,836,595	56,541,595
2001-02	17,410,000	39,131,531	56,541,531
2002-03	18,155,000	38,380,617	56,535,617
2003-04	18,960,000	37,578,915	56,538,915
2004-05	19,820,000	36,720,740	56,540,740
2005-06	20,855,000	35,687,480	56,542,480
2006-07	21,955,000	34,585,581	56,540,581
2007-08	23,125,000	33,415,570	56,540,570
2008-09	24,260,000	32,280,739	56,540,739
2009-10	25,450,000	31,088,268	56,538,268
2010-11	26,720,000	29,817,278	56,537,278
2011-12	28,085,000	28,450,493	56,535,493
2012-13	29,530,000	27,010,218	56,540,218
2013-14	31,050,000	25,489,585	56,539,585
2014-15	32,685,000	23,855,901	56,540,901
2015-16	34,375,000	22,163,757	56,538,757
2016-17	36,155,000	20,384,044	56,539,044
2017-18	38,025,000	18,512,075	56,537,075
2018-19	39,985,000	16,555,663	56,540,663
2019-20	42,040,000	14,498,351	56,538,351
2020-21	44,200,000	12,335,250	56,535,250
2021-22	46,440,000	10,096,188	56,536,188
2022-23	48,790,000	7,743,588	56,533,588
2023-24	34,950,000	5,271,888	40,221,888
2024-25	36,730,000	3,490,488	40,220,488
2025-26	15,020,000	1,618,313	16,638,313
2026-27	15,805,000	829,763	16,634,763
TOTAL INSTALLMENT PURCHASE AGREEMENT	\$818,760,000	\$708,431,319	\$1,527,191,319

Sewer Utility

OPERATING EXPENSES

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

SCHEDULE B-1

UNITED

TRANSMISSION:

Sewer Line Expenses:

	Year Ended June 30	
	1998	1997
Cleaning and Stoppage Removals, Mains and Laterals..	\$7,580,207	\$3,657,525
Accrued Claims.....	1,758,961	1,568,113
Maintenance of Laterals.....	1,309,750	1,431,838
Maintenance of Mains and Manholes.....	13,750,266	12,328,073
Sewage Pumping Stations.....	11,974,906	16,760,291
Metro Pump Station #1.....	2,878,608	0
Metro Pump Station #2.....	5,169,810	0
TOTAL TRANSMISSION.....	44,422,508	35,745,840

TREATMENT AND DISPOSAL:

Cogeneration Facilities.....	855,565	1,121,468
Point Loma Plant.....	12,182,747	9,915,867
North City Water Reclamation Plant.....	5,284,163	2,432,636
Fiesta Island Sludge Disposal Plant.....	9,440,314	11,728,803
Metro Biosolid Center.....	4,226,047	142,323
South Bay Water Reclamation Plant.....	367,696	0
El Cerrito System.....	1,147,463	1,129,154
Sewage Testing and Control.....	4,599,741	11,238,872
Wastewater Chemistry.....	3,060,961	0
Biology/Ocean Operations.....	2,560,732	0
TOTAL TREATMENT AND DISPOSAL.....	43,725,429	37,709,123

ACCOUNTING SERVICES:

General Accounting.....	311,619	575,822
Utility Commercial.....	5,615,498	3,858,786
TOTAL ACCOUNTING SERVICES.....	5,927,117	4,434,608

GENERAL AND ADMINISTRATIVE:

Utilities Administration and General Expense.....	22,853,624	32,906,279
Technical Services Administration.....	2,582,790	0
Central Support Facility.....	155,336	0
Expense of Other City Departments Applicable to the Sewerage Utility.....	6,023,080	1,932,268
Engineering Expenses.....	5,422,591	3,197,115
Uncollectible Accounts.....	(25,458)	496,741
TOTAL GENERAL AND ADMINISTRATIVE.....	37,011,963	38,532,403

DEPRECIATION.....	15,770,610	14,301,399
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TOTAL OPERATING EXPENSES (Exhibit B).....	\$146,857,627	\$130,723,373
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Sewer Utility

ESTIMATED AND ACTUAL CASH RECEIPTS FOR THE YEAR ENDED JUNE 30, 1998

SCHEDULE F-1

UNAUDITED

	Estimate	Actual	Actual Over or (Under) Estimate
Sewer Service Charges.....	\$155,047,000	\$152,715,902	(\$2,331,098)
New Sewer Service Connections.....	110,000	119,960	9,960
Sewage Treatment Plant Services.....	53,870,970	48,977,221	(4,893,749)
Sludge Handling Charge.....	0	80,390	80,390
Interest Earnings.....	14,500,000	20,472,141	5,972,141
Services Rendered Other Funds.....	475,000	5,508,378	5,033,378
Services Rendered Others.....	689,000	782,403	93,403
Capacity Charge Municipal System.....	5,326,000	16,136,839	10,810,839
Sale of Electricity/Gas Engine Generation.....	175,000	280,907	105,907
Contributions in Aid.....	33,037,279	37,552,666	4,515,387
Reimbursement Agreements.....	175,000,000	154,975,979	(20,024,021)
Other Revenue.....	264,877	(409,893)	(674,770)
TOTAL RECEIPTS (Exhibit F).....	\$438,495,126	\$437,192,893	(\$1,302,233)

APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES FOR THE YEAR ENDED JUNE 30, 1998

SCHEDULE F-2

UNAUDITED

	Appropriation	Expenditures	Encumbrances	Total	Unencumbered Balance
Maintenance and Operation:					
Salaries and Wages.....	\$36,722,667	\$36,089,028	\$0	\$36,089,028	\$633,639
Supplies and Expenses.....	131,256,288	92,365,826	19,416,320	111,782,146	19,474,142
Equipment.....	1,990,832	1,870,035	532,026	2,402,061	(411,229)
Total Maintenance and Operation.....	169,969,787	130,324,889	19,948,346	150,273,235	19,696,552
Outlay:					
Salaries and Wages.....	0	142,276	0	142,276	(142,276)
Construction.....	426,268,174	253,990,570	131,251,293	385,241,863	41,026,311
Equipment.....	96,219	363,481	130,493	493,974	(397,755)
Total Outlay.....	426,364,393	254,496,327	131,381,786	385,878,113	40,486,280
Installment Purchase Agreement Interest and Principal..	56,537,490	53,589,491	0	53,589,491	2,947,999
TOTAL (Exhibit F).....	\$652,871,670	\$438,410,707	\$151,330,132	\$589,740,839	\$63,130,831

Sewer Utility

COMPARATIVE STATISTICS - LAST 25 YEARS

UNAUDITED

Fiscal Year	Revenue	Maintenance & Operations Expenses	Depreciation/ Amortization	Bonded Debt Interest	Installment Purchase Agreement Interest	Net Income (Net Loss)	Sewerage Utility Plant
1997 - 1998	\$225,268,775	\$132,563,528	\$15,770,610	\$0	\$38,653,904	\$38,280,733	\$2,115,392,875
1996 - 1997	236,767,405	113,994,437	14,301,399	0	31,184,467	77,287,102	1,886,863,101
1995 - 1996	191,479,486	118,989,133	10,966,857	0	19,928,687	41,594,809	1,570,710,988
1994 - 1995	184,022,332	144,499,560	10,058,635	0	12,467,426	16,996,711	1,255,460,647
1993 - 1994	171,789,868	108,106,286	10,231,072	344,258	8,011,497	45,096,755	1,086,714,363
1992 - 1993	165,387,094	85,908,357	8,691,758	663,368	0	70,123,611	940,408,602
1991 - 1992	156,398,388	84,063,686	8,537,235	759,467	0	63,038,000	789,009,185
1990 - 1991	176,050,678	97,080,094	7,728,094	845,673	0	70,396,817	660,790,628
1989 - 1990	135,010,158	49,310,391	7,595,851	946,601	0	77,157,315	584,655,754
1988 - 1989	105,569,993	52,554,119	7,202,283	1,188,054	0	44,625,537	533,924,815
1987 - 1988	79,905,782	43,078,783	6,552,549	1,093,428	0	29,181,022	495,983,544
1986 - 1987	66,507,806	40,399,201	4,793,238	1,172,475	0	20,142,892	426,717,530
1985 - 1986	61,537,979	40,875,962	4,606,729	1,243,379	0	14,811,909	387,899,143
1984 - 1985	52,213,372	33,411,136	4,358,260	1,317,408	0	13,126,568	361,977,583
1983 - 1984	46,954,543	29,025,029	4,270,337	1,420,917	0	12,238,260	341,933,354
1982 - 1983	36,361,779	27,903,104	4,334,128	1,477,618	0	2,646,929	325,624,027
1981 - 1982	33,920,624	21,445,160	4,154,343	1,576,205	0	6,744,916	305,365,349
1980 - 1981	30,272,181	19,028,259	3,709,590	1,657,258	0	5,877,074	272,093,788
1979 - 1980	25,155,663	14,380,431	3,490,499	1,752,554	0	5,532,179	253,619,444
1978 - 1979	17,561,366	9,995,880	3,286,831	1,846,145	0	2,432,510	237,556,808
1977 - 1978	14,481,158	8,548,148	3,105,951	1,886,886	0	940,173	227,473,005
1976 - 1977	12,812,758	7,435,366	2,818,588	1,943,352	0	615,452	218,329,880
1975 - 1976	13,246,496	7,150,653	2,796,775	2,082,142	0	1,216,926	205,243,617
1974 - 1975	11,430,127	6,151,868	2,532,588	2,134,392	0	611,279	192,958,952
1973 - 1974	10,689,864	4,770,672	2,405,586	2,183,642	0	1,329,964	182,987,436
1972 - 1973	9,884,454	4,427,592	2,196,512	2,228,956	0	1,031,394	171,547,467

Sewer Utility

TABLE I

Bonded Debt	Installment Purchase Agreement	Retained Earnings	Total System Flow in Million Gallons			Fiscal Year
			Point Loma Plant-Metro	Municipal Plant	Total Flow	
\$0	\$818,760,000	\$669,561,142	71,828.830	1,509.261	73,338.091	1997 - 1998
0	833,625,000	630,682,867	67,374.450	1,252.061	68,626.511	1996 - 1997
0	588,285,000	553,395,765	65,962.611	1,226.956	67,189.567	1995 - 1996
0	242,785,000	511,800,956	66,525.380	1,321.614	67,846.994	1994 - 1995
0	247,145,000	494,804,245	64,153.910	1,310.714	65,464.624	1993 - 1994
12,797,000	0	449,707,490	68,771.580	1,318.696	70,090.276	1992 - 1993
15,089,000	0	630,682,867	64,144.650	1,177.417	65,322.067	1991 - 1992
17,296,000	0	316,545,879	64,819.740	1,365.091	66,184.831	1990 - 1991
19,439,000	0	246,149,062	69,463.382	1,405.081	70,868.463	1989 - 1990
21,461,000	0	168,991,747	66,951.182	1,425.883	68,377.065	1988 - 1989
23,411,000	0	125,792,132	66,545.240	1,316.763	67,862.003	1987 - 1988
25,298,000	0	96,575,236	63,690.392	1,270.092	64,960.484	1986 - 1987
27,133,000	0	76,432,344	54,434.425	1,209.691	55,644.116	1985 - 1986
29,063,000	0	61,620,435	51,818.921	1,217.721	53,036.642	1984 - 1985
31,247,000	0	48,493,867	50,247.377	1,210.064	51,457.441	1983 - 1984
33,492,000	0	36,255,607	49,287.413	1,190.283	50,477.696	1982 - 1983
35,658,000	0	35,170,704	48,486.180	932.985	49,419.165	1981 - 1982
37,683,000	0	28,425,788	47,271.910	992.238	48,264.148	1980 - 1981
39,357,000	0	22,548,714	47,722.390	1,073.023	48,795.413	1979 - 1980
41,135,000	0	17,016,535	45,918.285	943.983	46,862.268	1978 - 1979
42,672,000	0	14,584,025	43,414.000	938.139	44,352.139	1977 - 1978
44,517,000	0	13,643,852	43,043.860	731.222	43,775.082	1976 - 1977
47,350,000	0	13,028,400	40,373.910	674.953	41,048.863	1975 - 1976
48,750,000	0	11,811,474	39,393.540	644.093	40,037.633	1974 - 1975
50,100,000	0	11,200,195	36,176.540	562.366	36,738.906	1973 - 1974
51,400,000	0	9,870,231	36,149.400	470.321	36,619.721	1972 - 1973

Sewer Utility

GENERAL STATISTICS FOR THE YEAR ENDED JUNE 30, 1998

TABLE II

UNAUDITED

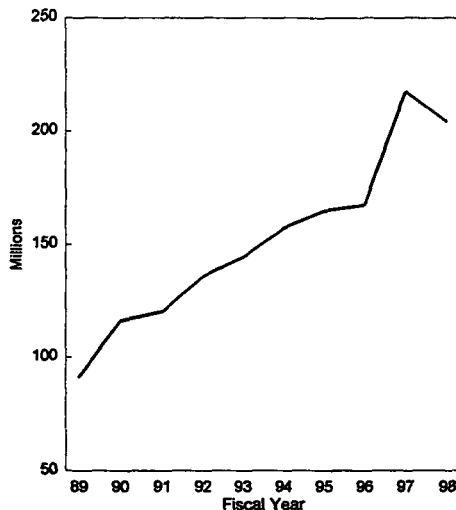
Population (Estimated June 30, 1998).....	1,224,848
Sewage Flow RB / San Pasqual Municipal System (Million Gallons).....	1,509.261
Sewage Flow Metropolitan System (Million Gallons).....	71,828.830
Total Sewage Flow Municipal and Metropolitan System (Million Gallons).....	73,338.091
Other Agencies' Sewage Flow (Million Gallons).....	21,109.425
Total City Sewage Flow (Million Gallons).....	52,228.666
Average Daily Municipal and Metropolitan Systems Sewage Flow (Million Gallons).....	200.926
Average Daily City Sewage Flow (Million Gallons).....	143.092
Average Daily City Sewage Flow per Capita (Gallons).....	116.824
Maximum Daily Sewage Flow - Metropolitan System February 24, 1998 (Million Gallons).....	348.910
Minimum Daily Sewage Flow - Metropolitan System June 30, 1998 (Million Gallons).....	159.060
Sewer Service Laterals - June 30, 1998.....	259,666
Municipal Sewer System Mains in Service - June 30, 1998 (Miles).....	2,554.3
Metropolitan Interceptor Sewer Mains in Service - June 30, 1998 (Miles).....	25.41
Sludge Disposal Lines in Service - June 30, 1998 (Miles).....	6.50
Ocean Outfall Line in Service - June 30, 1998 (Miles).....	4.50
Total Sewer Mains and Lines in Service - June 30, 1998 (Miles).....	2,590.7

Sewer Utility

SALES STATISTICS AND PRINCIPAL RATES

TABLE III

REVENUES - SEWER SERVICE CHARGES



CLASS	Year Ending June 30		Growth	
	1998	1997	Amount	Percent
REVENUES - (Thousand Dollars)				
Single Family Domestic	\$63,718	\$60,459	\$3,259	5.39%
Other Domestic	45,145	42,845	2,300	5.37%
Commercial	38,317	34,245	4,072	11.89%
Industrial	7,564	7,818	(254)	-3.25%
Outside City	9	10	(1)	-10.00%
Treat. Plant Serv. for Others	49,613	72,298	(22,685)	-31.38%
TOTAL	\$204,366	\$217,675	(\$13,309)	-6.11%

PRINCIPAL RATES - (As of June 30, 1998)

- For single family dwelling unit serviced by a separate water meter -- \$7.57 base fee plus \$2.58 per HCF per month.
- The monthly sewer service charge for all premises other than single family dwellings serviced by separate water meters shall be forty-five cents (\$0.45) per month, plus a charge per 100 cubic feet of water delivered, computed in accordance with the following table:

User Class	Average Suspended Solids Concentration (Parts per Million)	Rate Per HCF at 70-74% Return to Sewer
A	0-100	1.471
B	101-200	1.649
C	201-300	1.814
D	301-400	1.979
E	401-500	2.156
F	501-600	2.321
G	601-700	2.490
H	701-800	2.656
I	801-900	2.832
J	901-1,000	2.995
K	1,001+	**

* Charge for customers whose return to sewer deviates from 70-75% to be determined based on the following formula:
Rate per HCF = Rate at 70-75% return/class midpoint (72.5% return) X midpoint of appropriate return class.

** Class K/V shall include all dischargers of wastewater whose discharge exceeds 1,000 part per million of suspended solids. The rate per HCF will be individually computed for dischargers in Class K/V on the basis of \$1.814 per HCF of flow, and \$0.235 per 100 parts per million of suspended solids, at 100% return.

- The City Manager has the power to establish reasonable sewer charges, other than those listed above:
 - where sewage is substantially different in volume and type than the average.
 - where water is received from another source than the city's source.
 - where use is such that water supplied is not substantially or entirely discharged into the sewer system.
 - for fire service connection
 - whether not connected to the City's sewer system.
 - where irrigation water is separately measured.

APPENDIX B
CERTAIN INFORMATION REGARDING
THE CITY OF SAN DIEGO AND AREA

APPENDIX B

CERTAIN INFORMATION REGARDING THE CITY OF SAN DIEGO AND AREA

The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale of the Series 1999 Bonds made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.

INTRODUCTION

With a total population of 1.2 million in 1998 and a land area of 330 square miles, the City of San Diego (the "City") is the sixth largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

The City's population grew by 14% between 1989 and 1998 for an average increase of 16,800 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

Another factor in the City's growth is an expanding diversified economy. Recent growth has been concentrated in four major areas: high tech manufacturing and research (including electronics, communications equipment, scientific instruments, drugs, and biomedical equipment); professional services; tourism; and international trade. In addition to these expanding industries, the City benefits from a stable economic foundation composed of basic manufacturing (ship building, industrial machinery, television & video equipment, and printing & publishing), public and private higher education, health services, military, and local government.

Expansion in the high tech manufacturing and research component of the City's economic base has been led by the rapid emergence of telecommunications. Major participants in the City's telecommunications industry include manufacturers of personal communications equipment, radio/TV communications equipment, network communications equipment/systems, satellite communications equipment, and military surveillance/guidance systems. The City is the primary location for telecommunications firms in the County, with the Sorrento Valley area emerging as a major center in the development and manufacturing of products using wireless and digital technology.

Another component of the City's high tech industry is the biotechnology sector, which includes companies involved in developing chemical and biological products for use in the treatment and diagnosis of diseases and various medical conditions. As with telecommunications, the biotechnology industry is concentrated in the City, with the highest concentration in the area around the University of California, San Diego. Growth in both biotechnology and other high tech industries has been facilitated by the City's well established research organizations. Among the more important research facilities located in the City are the Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Super Computer Center.

The City is also home to a growing software industry. Components within this industry include basic computer programming services, prepackaged software, systems integration services, and development of multimedia products.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Data contained under this caption is intended to portray economic, demographic, and business trends within the City. While not constituting direct revenue sources as such, these trends help explain changes in revenue sources such as property taxes, sales taxes, and transient occupancy taxes, which could be impacted by economic conditions.

Population

As set forth in Table 1 below, between January 1, 1989 and January 1, 1998, the City's population has increased by 151,600 (or by approximately 16,800 new residents annually in the nine year period).

Table 1
POPULATION GROWTH
Calendar Years 1989 through 1998

Calendar Year ⁽¹⁾	City of San Diego	Annual Growth Rate	County of San Diego	Annual Growth Rate	State of California	Annual Growth Rate
1989	1,073,200	2.8%	2,388,700	3.8%	29,063,000	2.6%
1990	1,110,500	3.5%	2,498,000	3.3%	29,760,000	2.4%
1991	1,126,000	1.4%	2,539,600	1.7%	30,296,000	1.8%
1992	1,141,300	1.4%	2,583,500	1.7%	30,845,000	1.8%
1993	1,156,200	1.3%	2,614,200	1.2%	31,303,000	1.5%
1994	1,163,000	0.6%	2,638,500	0.9%	31,661,000	1.1%
1995	1,170,200	0.6%	2,658,600	0.8%	31,910,000	0.8%
1996	1,179,500	0.8%	2,682,100	0.9%	32,223,000	1.0%
1997	1,199,000	1.7%	2,729,100	1.8%	32,670,000	1.4%
1998	1,224,800	2.2%	2,794,800	2.4%	33,252,000	1.8%

(1) As of January 1 of the calendar year.

Source: State of California, Department of Finance.

As indicated in the following table, enrollment in kindergarten through grade 12 in the San Diego Unified School District has continued to grow at a relatively moderate pace during the 1990's.

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT AND ATTENDANCE
School Year 1993-94 through 1997-98

School Year	Average Daily Attendance
1993-94	123,509
1994-95	124,992
1995-96	127,892
1996-97	130,284
1997-98	132,201

Source: San Diego Unified School District, Controller.

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 1997 averaged 4.3% which was down from a 5.4% rate during calendar year 1996. The City's 1997 unemployment rate was below both the national rate of 5.0% and the State rate of 6.3%.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF RESIDENT LABOR FORCE
Calendar Years 1993 through 1997

	1993	1994	1995	1996	1997
Civilian Labor Force City of San Diego					
Employed	518,200	525,800	525,600	536,500	562,400
Unemployed	44,100	40,500	36,500	30,600	25,400
Unemployment Rates					
City	7.8%	7.2%	6.6%	5.4%	4.3%
County	7.7	7.0	6.4	5.3	4.2
California	9.2	8.6	7.8	7.2	6.3
United States	6.8	6.1	5.6	5.4	5.0

Source: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

Table 4 provides the Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County during the period 1993 to 1997. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 102,100 new jobs during this period.

Table 4
SAN DIEGO COUNTY
WAGE AND SALARY EMPLOYMENT
Calendar Years 1993 through 1997

	1993	1994	1995	1996	1997
Mining	400	400	300	400	400
Construction	39,500	40,600	43,600	45,500	52,500
Manufacturing	117,500	114,100	114,900	117,500	122,100
Nondurable Goods	32,300	32,300	31,600	32,200	33,600
Durable Goods	85,200	81,800	83,300	85,200	88,500
Transportation, Communications, Utilities ⁽¹⁾	35,700	36,400	37,400	38,300	41,100
Trade	225,500	227,000	229,500	235,900	241,100
Wholesale	39,700	42,000	42,900	42,700	44,500
Retail	185,800	185,100	186,600	193,200	196,600
Finance, Insurance, Real Estate	62,200	59,100	55,800	57,400	60,900
Services	287,300	296,100	310,900	321,200	338,800
Government	179,100	181,500	186,100	190,100	192,500
Federal	44,300	45,400	45,700	45,800	44,900
State and Local	134,700	136,100	140,400	144,300	147,600
TOTAL NONAGRICULTURAL⁽²⁾	947,200	955,300	978,600	1,006,200	1,049,300

(1) Includes trucking and transit services, telephone and broadcast/cables services, and gas and electric services.

(2) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department

Since the industry employment data referenced above is organized by standard industrial classification codes, employment in the various high tech categories, such as Telecommunications, Biotechnology, and Software may not fall into a single employment sector alone. For example, some categories of firms in Telecommunications appear in Manufacturing, while certain other categories appear in Services.

The following is a discussion of the trends shown in the above Wage and Salary Employment table.

Manufacturing. During the early 1990's, manufacturing employment in the County recorded sharp declines, due primarily to the relocation of much of its aerospace industry. After bottoming out in 1994, manufacturing employment recorded consecutive annual increases of approximately 800 and 2,600 in 1995 and 1996, respectively. Manufacturing employment continued to grow in 1997, averaging 122,100 for the year, up by 4,600 jobs from 1996, with gains reported in most major categories, including electronics, industrial machinery and aerospace.

Construction. Construction employment in the County grew by approximately 7,000 during 1997, after increasing by approximately 1,900 during 1996.

Transportation, Communications and Utilities. The Transportation, Communications and Utilities industry classification recorded a net increase of 2,800 new jobs in the County during 1997. This included a gain of approximately 1,600 in Transportation and 1,300 in Communications, partially offset by a loss of approximately 100 jobs in the Electric and Gas Utilities category.

Wholesale and Retail Trade. Combined, the Retail and Wholesale Trade sectors account for 23% of total nonagricultural wage and salary employment during 1997. Wholesale trade added approximately 1,800 jobs in 1997, after a decline of approximately 200 during 1996. Retail trade employment increased by approximately 3,400 in 1997 after increasing by approximately 6,600 in 1996.

Finance, Insurance and Real Estate. Countywide employment in the Finance, Insurance and Real Estate sector increased by approximately 3,500 jobs during 1997, after adding approximately 1,600 jobs during 1996.

Services. Employment in the County's Services sector grew by approximately 17,600 jobs, or 5.5% in 1997, following a gain of 10,300 jobs the previous year. All of the major categories recorded year-to-year gains, led by Business Services (+6,400) and Engineering and Management (+3,100).

Much of the growth in the Engineering and Management category during 1996 and 1997 is related to gains in the Telecommunications and Biotechnology subcategories within this grouping. The strong growth in the Business Services category reflects increases in the Data Services and Software subcategories.

Government. The Government sector, which accounted for 18% of total 1997 nonagricultural wage and salary employment in the County, grew by approximately 2,400 jobs during 1997. This increase occurred in State and local government agencies, with almost all of the increase due to gains in public education. Federal employment was down by 900 jobs during the year.

Military Employment and Civilian Defense Spending. According to the San Diego Chamber of Commerce, the County, with a total military and civilian payroll of \$3.7 billion in the federal fiscal year 1997, continued to lead all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled \$2.7 billion during the federal fiscal year 1997, down slightly from \$2.8 billion in the previous year. The Department of Defense also spent \$1.2 billion on base operation expenses, \$1.0 billion on retirement benefits, and another \$0.9 billion on various classified contracts, sub contracts, and other contracts of less than \$1,000 each. The total defense spending in 1997 was \$9.56 billion representing only a fractional increase over the \$9.48 billion reported in 1996. The San Diego Chamber of Commerce estimates that as of June 1, 1997, total active duty military personnel in the County totaled 113,100 and the total civilian employment was 23,200.

Taxable Sales

According to the California State Board of Equalization, taxable transactions at retail and other outlets in the City during calendar year 1997 totaled approximately \$12.4 billion, up 9.7% from 1996, and up 27.8% from 1993.^Δ Table 5 provides annual sales information by type of outlet for the period 1993 through 1997.

Table 5
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 1993 through 1997
(in thousands)

	1993	1994	1995	1996	1997
Retail Stores					
Apparel	\$ 433,780	\$ 447,313	\$ 434,581	\$ 451,984	\$ 485,551
General Merchandise	1,043,784	1,054,734	1,074,910	1,120,672	1,354,698
Drug	175,783	178,139	173,447	183,977	(1)
Food	508,069	495,380	498,605	521,014	554,625
Packaged Liquor	68,333	61,625	61,532	62,141	(2)
Eating and Drinking	1,119,170	1,148,154	1,229,823	1,307,079	1,380,894
Home Furnishings and Appliances	346,672	405,446	447,654	492,104	444,930
Building Materials and Farm Implements	441,905	426,329	441,099	469,293	603,365
Auto Dealers & Supplies	902,145	958,513	1,042,689	1,089,331	1,189,462
Service Stations	610,907	607,873	604,944	672,559	673,078
Other	1,266,404	1,298,837	1,381,085	1,492,879	1,686,807
Total Retail Stores	6,916,952	7,082,343	7,390,369	7,863,033	8,373,410
All Other Outlets	2,760,162	2,975,794	3,167,820	3,426,610	4,024,433
Total All Outlets	\$ 9,677,114	\$ 10,058,137	\$ 10,558,189	\$ 11,289,643	\$ 12,397,843

(1) Included in General Merchandise.

(2) Included in Other Retail.

Source: California State Board of Equalization.

Tourism

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military.

As shown in Table 6, visitor spending in the County totaled \$4.37 billion in 1997, up 26.7% from 1993 and up 7.9% from 1996.

Table 6
SAN DIEGO COUNTY
TOTAL VISITOR SPENDING
Calendar Years 1993 through 1997
(in billions)

<u>Calendar Year</u>	<u>Amount</u>
1993	\$ 3.45
1994	\$ 3.64
1995	\$ 3.80
1996	\$ 4.05
1997	\$ 4.37

Source: San Diego Convention and Visitors Bureau.

As shown in Table 7, the transient occupancy tax (TOT) revenues have been exhibiting a strong upward trend. The TOT revenues have grown substantially between Fiscal Year 1994 and Fiscal Year 1998. This was accounted for in part by a 16.7% rate increase early in the Fiscal Year ended June 30, 1995.

Table 7
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 1994 through 1998⁽²⁾
(in thousands)

<u>Fiscal Δ Year</u>	<u>Amount</u>
1994	\$ 49,998 ⁽³⁾
1995 ⁽⁴⁾	\$ 57,211
1996	\$ 64,427
1997	\$ 75,476
1998	\$ 85,088

(1) Includes General Fund portion of TOT (5.5¢ of 10.5¢) and balance (5¢ of 10.5¢) allocated to Special Promotional Programs.

(2) Fiscal Year refers to the twelve month period from July 1 of the previous year to June 30 of the referenced year.

(3) In the fiscal year ended June 30, 1994, the City began accounting for transient occupancy tax revenues on an accrued basis, rather than on a cash basis, as allowable under the National Council on Governmental Accounting (NCGA) Statement No. 1. Since the amount in fiscal 1994 which would have been accounted for in fiscal 1993 had the City begun using the accrual method earlier, was not deducted from 1994 receipts, this had the effect of providing a one-time increase of \$3,801,000.

(4) Rate increase from 9% (9¢ per \$1) of hotel room rates to 10.5% (10.5¢ per \$1) on August 1, 1994.

Δ Source: City Auditor & Comptroller for Fiscal 1994-1997, and City Budget and Management Services for Fiscal 1998.

As shown in Table 8, contributing to the growth in visitor spending has been growth in convention spending. Estimated direct and indirect spending by both delegates and exhibitors in association with conventions hosted at the San Diego Convention Center totaled \$257.3 million in 1997, up 4% from 1996 and up by 61% from 1993.

Table 8
SAN DIEGO CONVENTION CENTER⁽¹⁾
Calendar Years 1993 through 1997

<u>Calendar Year</u>	<u>Estimated Spending⁽²⁾</u>	<u>Number of Conventions</u>	<u>Total Delegate Attendance</u>
1993 ⁽³⁾	\$160,112,046	52	236,600
1994	210,435,456	48	232,600
1995	243,669,716	49	330,510
1996	247,375,380	52	285,812
1997	257,276,865	59	290,802

(1) Table includes the San Diego Convention Center; it does not include other sources of convention activity in the San Diego region.

(2) These estimates are based on historical spending patterns since the opening of the Convention Center in 1989.

(3) Convention spending was down in 1993 due to the impact of the recession and the rescheduling of several larger conventions to 1992 in order to coincide with the America's Cup in the Spring of 1992.

Source: San Diego Convention and Visitors Bureau.

The City is the focal point for tourism in the County. The Convention Center, approximately 75% of the County's hotel and motel rooms, and all of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, and Balboa Park – home to the San Diego Zoo and a host of other cultural and recreational

activities. According to the San Diego Convention and Visitors Bureau, total attendance at all of these attractions, including museums, totaled 20.5 million during 1997, up 1.7% from 1996.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major events. The City hosted the America's Cup in 1992 and 1995 and the Super Bowl in January 1998. In addition, the City was the site for the Republican National Convention held in August 1996.

Associated with the growth in tourism has been an increase in traffic through San Diego's Lindbergh Field International Airport. According to the San Diego Unified Port District, in 1997 there were 7.2 million arrivals, up 4.3% from 1996. In January 1998, the San Diego Unified Port District completed a \$238 million expansion to the airport. Features of this expansion include an expanded terminal, a new pedestrian bridge, and improved roadways and parking lots.

International Trade

The table below is from the International Trade Administration's *Exporter Location Series*. This data is compiled on an f.a.s (free alongside ship) basis and includes domestic exports and re-exports. The total value of exports from the County during 1997 totaled \$7.8 billion, up 16.4% from 1996.

Table 9
VALUATION OF EXPORTS
ORIGINATING IN SAN DIEGO COUNTY
Calendar Years 1993 through 1997
(in billions)

<u>Calendar Year</u>	<u>Total Exports</u>
1993	\$ 4.4
1994	\$ 4.9
1995	\$ 5.9
1996	\$ 6.7
1997	\$ 7.8

Source: International Trade Administration

Major Employers

The City is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. Table 10 provides information published in the 1998-99 Business Referral Directory of the Greater San Diego Chamber of Commerce. All of the businesses listed in the following table have their main offices in the City, with many having branch offices and/or production facilities in other areas of the County. Accordingly, not all employees of these businesses work within the City.

Table 10
CITY OF SAN DIEGO
MAJOR EMPLOYERS⁽¹⁾
Calendar Year 1998⁽²⁾

<u>Employer</u>	<u>Product/Service</u>
10,000 or More Employees:	
San Diego Unified School District	Education
Sharp Health Care	Health Service
University of California, San Diego	Higher Education
5,000 - 9,999 Employees:	
National Steel & Shipbuilding Company	Shipbuilding, Repair
Qualcomm	Wireless Communications
San Diego Community College District	Higher Education
Scripps Health	Health Service
3,000 - 4,999 Employees:	
Kaiser Permanente	Health Service
Palomar Pomerado Health System	Health Service
San Diego Gas & Electric/Sempra Energy	Utility
Science Applications International Corporation	Research and Development
Seaworld of California	Entertainment
Solar Turbines	Gas Turbine Manufacturing
Sony Technology Center	Electronics
2,000 - 2,999 Employees:	
Ace Parking	Parking Stations and Garages
Bank of America	Banking
Cubic Corporation	Electronic Systems
Foodmaker	Restaurants
Hewlett Packard Company	Electronic Instruments
Home Depot	Building materials
Manpower Temporary Services	Employment Service
Nordstrom	Department Store
Pacific Bell	Utility
Samsung	Electronics
San Diego State University	Higher Education
Scripps Research Institute	Biomedical Research
Target Stores - San Diego	Retail
University of San Diego	Higher Education

(1) Does not include various major public employers, including the City, the County, and the federal government with a combined total employment of 176,800.

(2) As of January 1, 1998.

Source: Greater San Diego Chamber of Commerce.

Effective Buying Income

Table 11 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1993 through 1997. The estimates for each calendar year are published in the September issue of the following calendar year (i.e., data for 1998 will be published in the September 1999 issue). The purpose of this table is to show the EBI within the City of San Diego as compared to other locations.

Table 11
PER CAPITA EFFECTIVE BUYING INCOME
Calendar Years 1993 through 1997

<u>Calendar Year</u>	<u>City of San Diego</u>	<u>County of San Diego</u>	<u>State of California</u>	<u>United States</u>
1993	\$16,667	\$16,485	\$16,672	\$16,064
1994	\$17,220	\$17,034	\$17,275	\$16,918
1995 ⁽¹⁾	\$14,770	\$14,609	\$14,759	\$14,965
1996	\$15,139	\$14,975	\$15,068	\$15,555
1997	\$15,804	\$15,618	\$15,797	\$16,281

(1) Prior to 1995, estimates of EBI were based on the Bureau of Economic Analysis definition of "personal income" less personal tax payments. Beginning in 1995, the estimates were based on the Census Bureau's definition of "money income" less personal tax payments. Since the Census definition excludes certain sources of income, such as interest and rents, employer contributions to private pension funds, and Medicaid and Medicare, the overall figures from 1995 onwards were lower compared to the prior years. (According to Sales & Marketing Management Magazine, "personal income" is greater than "money income" by 11-14%.) In addition, because of geographic differences in sources of income, per capita EBI estimates based on "money income" for some areas, such as California and San Diego, were below the national average.

Source: Sales & Marketing Management Magazine "Survey of Buying Power."

Building Permits

Table 12 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1994 through 1998. The valuation of non-residential permits includes both private commercial construction and publicly funded, non-tax generating projects.

Table 12
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1994 through 1998

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Valuation (in thousands)					
Residential	\$475,878	\$432,957	\$396,681	\$541,443	\$890,476
Nonresidential	<u>325,245</u>	<u>382,514</u>	<u>450,301</u>	<u>478,887</u>	<u>576,170</u>
Total	<u>\$801,123</u>	<u>\$815,471</u>	<u>\$846,982</u>	<u>\$1,020,330</u>	<u>\$1,466,646</u>
Number of New Dwelling Units:					
Single Family	1,860	1,440	1,468	2,197	3,032
Multiple Family	<u>992</u>	<u>1,212</u>	<u>774</u>	<u>1,014</u>	<u>3,018</u>
Total	<u>2,852</u>	<u>2,652</u>	<u>2,242</u>	<u>3,211</u>	<u>6,050</u>

Source: City of San Diego, Development Services Department.

Business Development Program

The City recognizes the need to improve the local business climate and aggressively support economic development and job creation activities. To achieve this, the City has established a comprehensive Business Development Program. A key element of this program is the Business Expansion and Retention Program (BEAR Program) which represents a proactive effort on the part of the City to work directly with businesses to improve the retention rate among local firms and to expand the level of investment and job growth. This program was created in mid 1995 by integrating the City's existing business development activities to provide centralized coordination, data management, and to expand operational relationships with partnership agencies such as the Economic Development Corporation and San Diego Gas & Electric Corporation. Some of the BEAR Program components include Business Incentives, Targeted Assistance, Business Cooperation Program, Business Outreach, and Business Finance.

The primary focus of the City's overall business development effort has been on streamlining the current permitting process and, when feasible, eliminating or reducing existing fees and permits. A major component of this streamlining effort has been the creation of a "one-stop" permitting center to reduce the development permit processing time by as much as one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process into a "one-stop" process.

The City also operates the Business Resource Station, an interactive information center designed to provide aspiring entrepreneurs with everything they need to know about starting a small business in the City. In 1994, the City Council reduced the Business License Tax for all businesses with 12 or fewer employees from \$125 and \$5 per employee to \$70 per business and \$3 per employee, and in 1995 reduced it even further, to a flat fee of \$34 per business with no per employee charge.

Transportation

San Diego has a well-developed and relatively uncongested highway system. Access in and out of the region is provided by five major freeways running north and south and three freeways running east and west.

Public transportation through the City and metropolitan surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to the southern part of the County and East County. The East Line extension to Santee was completed in June 1996. This 3.6 mile extension connects El Cajon with Santee. The trolley also provides service from downtown San Diego to the waterfront area, including the Convention Center. Another extension that provides service from downtown to the historical Old Town section of the City was completed in June 1996. In addition, the Mission Valley extension, which connects Old Town with the Mission Valley shopping area, ending at the Mission San Diego, opened in December 1997. In May 1998, the U.S. Congress approved a transportation bill which earmarked \$325 million for a 6-mile trolley extension connecting the Mission Valley Line with the East Line in La Mesa.

A 43-mile Coaster Commuter rail line from Oceanside to downtown San Diego came into service in 1995. This line links communities along the coast from Oceanside to Del Mar with downtown San Diego and is operated by North County Transit District ("NCTD").

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. Through Fiscal Year 1998, the City has been allocated \$157.7 million in Proposition A funds and expects to receive an additional \$38.2 million through Fiscal Year 2000.

State Propositions 108/111/116, voter approved in June 1990, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program through the year 2000. Increased revenues to the City resulting from Proposition 111's increased gas tax subventions are estimated at \$66.7 million over the ten year period from 1991 through 2000. Through Fiscal Year 1998, the City has received approximately \$48.6 million in Proposition 111 funds. Revenues from this source supplement the City's street maintenance and resurfacing program, and other street related services, including traffic light and signal maintenance, median maintenance and traffic engineering to ensure efficient traffic flow.

APPENDIX C
DEFINITIONS OF CERTAIN TERMS

APPENDIX C

DEFINITIONS OF CERTAIN TERMS

The following is a summary of certain definitions set forth in the Indenture and in the Installment Purchase Agreement. These summaries do not purport to be comprehensive and reference should be made to such documents for a full and complete statement of such definitions. All capitalized terms not defined in this summary or this Official Statement shall have the meanings set forth in the Indenture and in the Installment Purchase Agreement.

"Accountant's Report" means a report signed by an Independent Certified Public Accountant.

"Acquisition Costs" means all costs of acquiring, constructing, installing or improving the Project, including but not limited to: (i) all costs which the Authority or the City shall be required to pay to a manufacturer, vendor or contractor or any other person under the terms of any contract or contracts for the acquisition, construction, installation or improvement of the Project; (ii) obligations of the Authority or the City incurred for labor and materials (including obligations payable to the Authority or the City for actual out-of-pocket expenses of the Authority or the City) in connection with the acquisition, construction, installation or improvement of the Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the Project prior to or after delivery of the Bonds; (iii) the costs of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect during the course of acquisition, construction, installation or improvement of the Project; (iv) all costs of engineering and architectural services, including the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and sales commissions, and for supervising acquisition, construction, installation and improvement, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction, installation or improvement of the Project; and (v) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the acquisition, construction, installation or improvement of the Project.

"Additional Bonds" means all revenue bonds of the Authority which are secured by Installment Payments authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

"Ambac" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation.

"Annual Debt Service" means, for any Fiscal Year, the sum of (i) the interest payable on all Outstanding Bonds in such Fiscal Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Bonds); (ii) the principal amount of all Outstanding Serial Bonds maturing by their terms in such Fiscal Year; and (iii) the principal amount of all Outstanding Term Bonds required to be redeemed or paid in such Fiscal Year (together with the redemption premiums, if any, thereon).

"Auditor and Comptroller" means the Auditor and Comptroller of the City.

"Authority" means the Public Facilities Financing Authority of the City of San Diego, a California joint exercise of powers entity.

"Authorized City Representative" means the Mayor, the City Manager or the Treasurer of the City or such other officer or employee of the City or other person who has been designated as such representative by resolution of the City Council of the City.

"Authorized Denominations" means \$5,000 and any integral multiple thereof.

"Authorizing Ordinance" means the ordinance pursuant to which the Installment Purchase Agreement was authorized and any additional Ordinance or official authorizing act of the Council of the City approving execution and delivery of any Supplement to the Installment Purchase Agreement or any Issuing Instrument.

"Balloon Indebtedness" means, with respect to any Series of Obligations, 25% or more of the principal of which matures on the same date or within a 12-month period with sinking fund payments on Term Obligations deemed to be payments of matured principal, that portion of such Series of Obligations which matures on such date or within such date or within such 12-month period; provided, however, that to constitute Balloon Indebtedness the amount of indebtedness maturing on a single date or over a 12-month period must equal or exceed 150% of the amount of such Series of Obligations which matures during any preceding 12-month period. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

"Board" means the Board of Directors of the Authority.

"Bond Counsel" means a firm of attorneys which are nationally recognized as experts in the area of municipal finance.

"Bond Insurer" means Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company, a New York stock insurance company, or any successor thereto.

"Bonds" means the 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1999 Bonds and all Additional Bonds.

"Business Day" means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture, and, unless otherwise specifically provided in the Indenture, no interest shall accrue for the period from and after such nominal date.

"Certificate of Completion" means a Certificate of the City filed with the Trustee, stating that the Components of the Project being financed with the proceeds of the Bonds have been acquired, constructed, installed and improved and that all Acquisition Costs have been paid or provided for.

"Certificate of the City" means an instrument in writing signed by the City Manager, Financial Management Director or City Attorney of the City, or by any other officials of the City duly authorized by the City for that purpose.

"Charter" means the Charter of the City as it now exists or may be amended, and any new or successor Charter.

"City" means the City of San Diego, a municipal corporation duly organized and existing under its Charter and the Constitution of the State.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and any successor laws or regulations.

"Component Installment Payments" means, collectively, the 1999A Component Installment Payments and the 1999B Component Installment Payments.

"Component Obligation Series 1999" means the Component Obligation Series 1999A and the Component Obligation Series 1999B.

"Component Obligation Series 1999A" means the 1999A Bonds.

"Component Obligation Series 1999B" means the 1999B Bonds.

"Components" means, collectively, the 1999A Components and the 1999B Components.

"Consultant" means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in the Installment Purchase Agreement. Such consultant, consulting firm, engineer, architect, engineering firm or architectural firm shall be nationally recognized within its profession for work of the character required. Such accountants or accounting firm shall be an Independent Certified Public Accountant licensed to practice in the State.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the City and the Trustee dated March 17, 1999, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Contracts" means any contract or lease of the City (including the Installment Purchase Agreement) authorized and executed by the City, the installment or lease payments of which are payable from the Net System Revenues and which are on a parity with the Installment Payments.

"Corporate Trust Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California or such other or additional offices as may be specified to the Authority by the Trustee in writing.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the issuance, sale and delivery of the Bonds and the execution and delivery of the Indenture and the Installment Purchase Agreement, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, fees and charges of rating agencies and/or for credit ratings, fees for transportation and safekeeping of the Bonds and charges and fees in connection with the foregoing.

"Credit Facility" means any line of credit, letter of credit, insurance policy, surety bond or other credit source deposited with the Trustee pursuant to the Indenture.

"Credit Provider" means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support arrangements for some or all of the Parity Obligations.

"Credit Provider Reimbursement Obligations" means obligations of the City to repay, from Net System Revenues, amounts advanced by a Credit Provider as credit support or liquidity for Parity Obligations.

"Credit Support" means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit or liquidity support with respect to the payment of interest, principal or the purchase price of any Parity Obligations.

"Debt Service" means for any Fiscal Year, the sum of (i) the interest payable during such Fiscal Year on all outstanding Parity Obligations, assuming that all outstanding Serial Parity Obligations are retired as scheduled and that all outstanding Term Parity Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Parity Obligations); (ii) that portion of the principal amount of all outstanding Serial Parity Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year, (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of Parity Obligations); (iii) that portion of the principal amount of all outstanding Term Parity Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any, thereon); provided that, (i) as to any

Balloon Indebtedness, Tender Indebtedness and Variable Rate Indebtedness, interest thereon shall be calculated as provided in the definition of Maximum Annual Debt Service and principal shall be deemed due at the nominal maturity dates thereof; (ii) the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; (iii) the amount of any interest payable on any Parity Obligation for which there exists a Qualified Swap Agreement shall be the net amount payable by the City as provided in paragraph (iv) or (viii), as applicable, of the definition of Maximum Annual Debt Service, and (iv) the amount of payments on account of Parity Obligations which are redeemed, retired or repaid on the basis of accreted value due on the scheduled redemption, retirement or repayment date shall be deemed principal payments, and interest that is compounded and paid as part of the accreted value shall be deemed payable on the scheduled redemption, retirement or repayment date but not before.

"Default Rate" means the Maximum Rate.

"Defaulted Obligations" means Obligations in respect of which an Event of Default has occurred and is continuing.

"Depository" means the securities depository acting as Depository pursuant to the Indenture.

"District" means the San Diego Area Wastewater Management District created under Chapter 803 of 1992 Session Laws.

"Federal Securities" means bills, certificates of indebtedness, notes, bonds or other securities which are direct obligations of, or are obligations guaranteed as to principal and interest by, or the principal and interest of which are secured by bills, certificates of indebtedness, notes, bonds or other securities which are direct obligations of or are guaranteed as to principal and interest by, the United States of America, whether issued in book entry form or otherwise; direct obligations of the Export-Import Bank of the United States; consolidated debt obligations of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal); and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit bonds of the Washington Metropolitan Area Transit Authority; and stripped obligations of the Resolution Funding Corporation (stripped with the Federal Reserve Bank of New York).

"Fifth Supplemental Indenture" means the Fifth Supplemental Indenture, dated as of March 1, 1999, between the Authority and the Trustee, supplementing and amending the Prior Indenture.

"First Supplemental Indenture" means the First Supplemental Indenture, dated as of May 1, 1994, between the Authority and the Trustee, supplementing and amending the Original Indenture.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

"Fourth Supplemental Indenture" means the Fourth Supplemental Indenture, dated as of September 1, 1998, between the Authority and the Trustee, supplementing and amending the Original Indenture, the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture.

"Indenture" means the Original Indenture, as amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture and as it may from time to time be amended or supplemented by all Supplemental Indentures executed pursuant to the provisions of the Indenture.

"Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

"Independent Engineer" means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to wastewater systems, appointed and paid by the City.

"Information Services" means Financial Information, Inc. "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 17302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broad Street, 16th Floor, New York, New York 10006; Moody's Investors Service's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other services providing information with respect to called bonds, or to such services as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Installment Payment Date" means any date on which an Installment Payment is due as specified thereto in or determined pursuant to a Supplement.

"Installment Payments" means the Installment Payments scheduled to be paid by the City under and pursuant to the Installment Purchase Agreement or any Supplement thereto.

"Installment Payment Obligations" means Obligations consisting of or which are supported in whole by Installment Payments.

"Installment Purchase Agreement" means the Master Installment Purchase Agreement, dated as of September 1, 1993, entered into between the Authority, as seller, and the City, as purchaser, and as amended and supplemented by the 1993-1 Supplement, the 1995-1 Supplement, the 1997-1 Supplement, the 1998-1 Supplement and the 1999-1 Supplement and as it may from time to time be further amended or supplemented pursuant to the provisions thereof.

"Insured 1993 Bonds" means the 1993 Bonds maturing in the years 1997 to 2013.

"Insured 1999 Bonds" means the 1999 Bonds maturing on May 15, 2002 through 2019, and May 15, 2029.

"Interest Payment Date" means each May 15 and November 15.

"Interest Portion" means the interest portion of Component Installment Payments specified in the 1999-1 Supplement.

"Issuing Instrument" means any indenture, trust agreement or Installment Purchase Agreement including any Supplement under which Obligations are issued or created.

"Law" means the Charter and all laws of the State supplemental thereto.

"Maintenance and Operation Costs of the Metropolitan System" means (i) a Qualified Take or Pay Obligation related to the Metropolitan System; and (ii) reasonable and necessary costs spent or incurred by the City for maintaining and operating the Metropolitan System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Metropolitan System in good repair and working order, and including administrative costs of the City attributable to the Components which are part of the Metropolitan System, salaries and wages of employees, payments to employees retirement systems (to the extent paid from Metropolitan System Revenues), overhead, taxes (if any), fees from auditors, accountants, attorneys or engineers and insurance premiums,

and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations the proceeds of which are used to acquire Components which are part of the Metropolitan System, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate relating to the financing of Components which are part of the Metropolitan System, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and including expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor; (ii) amortization of intangibles or other bookkeeping entries of a similar nature; (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Metropolitan System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation; (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Metropolitan System purposes; and (v) charges for the payment of principal and interest on account of any Obligation.

"Maintenance and Operation Costs of the Municipal System" means (i) a Qualified Take or Pay Obligation related to the Municipal System; and (ii) reasonable and necessary costs spent or incurred by the City for maintaining and operating the Municipal System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Municipal System in good repair and working order, and including administrative costs of the City attributable to the Components which are part of the Municipal System, salaries and wages of employees, payments to employees retirement systems (to the extent paid from Municipal System Revenues), overhead, taxes (if any), fees from auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations the proceeds of which are used to acquire Components which are part of the Municipal System, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate relating to the financing of Components which are part of the Municipal System, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor; (ii) amortization of intangibles or other bookkeeping entries of a similar nature; (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Municipal System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation; (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Municipal System purposes; and (v) charges for the payment of principal and interest on account of any Obligation.

"Maintenance and Operation Costs of the Wastewater System" means (i) a Qualified Take or Pay Obligation related to the Wastewater System; and (ii) reasonable and necessary costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City attributable to the Project and the Installment Purchase Agreement, salaries and wages of employees, payments to employees retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees from auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including this Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate, relating to the financing of Components which are part of the Wastewater System, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor; (ii) amortization of intangibles or other bookkeeping entries of a similar nature; (iii) costs of capital additions, replacements, betterment, extensions or improvements to the Wastewater System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation; (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Wastewater System purposes; and (v) charges for the payment of principal and interest on account of any debt service on account of any obligation on a parity with or subordinate to the Installment Payments.

"Maximum Annual Debt Service" means at any point in time, with respect to Parity Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Parity Obligations in the then current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant as provided in this definition and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each year, payments shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Parity Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Parity Obligations, and including any scheduled mandatory redemption or prepayment of Parity Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment shall be deemed a principal payment; in determining the interest due in each year, interest payable at a fixed rate shall (except to the extent subsection (ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Parity Obligations constitutes Balloon Indebtedness or if all or any portion or portions of a Series of Parity Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation shall be determined as provided in (iv) or (v) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in (i) above;

(iii) if any of the Outstanding Series of Parity Obligations constitutes Tender Indebtedness or if Parity Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Parity Obligations were to be amortized in accordance with the amortization schedule set forth in such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness shall be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year in which such Series first subject to tender, the interest rate used for such computation shall be determined as provided in (iv) or (v) below, as appropriate;

(iv) if any Outstanding Parity Obligations constitute Variable Rate Indebtedness (except to the extent paragraph (ii) relating to Balloon Indebtedness or paragraph (iii) relating to Tender Indebtedness applies), the interest rate on such Obligation shall be assumed to be 110% of the daily average interest rate on such Parity Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Parity Obligations shall have been Outstanding; provided that in the event that such Variable Rate Indebtedness has been issued in connection with a Qualified Swap Agreement, the interest rate for purposes of computing Maximum Annual Debt Service shall be determined by (x) calculating the annualized net amount paid by the City under such Variable Rate Indebtedness and Qualified Swap Agreement (after giving effect to payments made under the Variable Rate Indebtedness and made and received by the City under the Qualified Swap Agreement) during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Qualified Swap Agreement has been in effect, and (y) dividing the amount calculated in clause (x) by the average daily balance of the related Parity Obligations Outstanding during the 12-month period contemplated by clause (x);

(v) if Parity Obligations proposed to be issued will be Variable Rate Indebtedness (except to the extent subsection (ii) relating to Balloon Indebtedness or (iii) relating to Tender Indebtedness applies), then such Parity Obligations shall be assumed to bear interest at 110% of the average of the J.J. Kenny High Grade Index during the prior 12 months ending with the month preceding the date of sale of such additional Parity Obligations, or if that index is no longer published, another similar index selected by the

City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; provided that in the event that such Variable Rate Indebtedness will be issued in connection with a Qualified Swap Agreement, the interest rate for purposes of computing Maximum Annual Debt Service shall be determined by (a) calculating the net amount to be paid by the City under such Variable Rate Indebtedness and Qualified Swap Agreement after giving effect to payments to be made under the Variable Rate Indebtedness and to be made and received by the City under the Qualified Swap Agreement) for the period during which the Qualified Swap Agreement is to be in effect and for this purpose any variable rate of interest agreed to be paid thereunder shall be deemed to be the rate at which the related Parity Obligation shall be assumed to bear interest, and (b) dividing the amount calculated in clause (a) by the average principal amount of the related Parity Obligation to be Outstanding during the first year after the issuance of such Parity Obligation;

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal and/or interest on specified Parity Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service;

(vii) if Parity Obligations are Paired Obligations, the interest thereon shall be the resulting linked rate or effective fixed rate to be paid with respect to such Paired Obligations; and

(viii) in the event that an agreement or commitment which, at the time of calculation is a Qualified Swap Agreement is or is to be in effect with respect to a Parity Obligation which is not Variable Rate Indebtedness, the interest rate of such Parity Obligation for purposes of calculating Maximum Annual Debt Service shall be calculated as follows:

(a) for such a Qualified Swap Agreement which is in effect on the date of calculation, the interest rate shall be calculated in the same manner as is specified in paragraph (iv) for a Qualified Swap Agreement issued in connection with Variable Rate Indebtedness which is Outstanding on the date of calculation; and

(b) for such a Qualified Swap Agreement which is not in effect on the date of calculation, the interest rate shall be calculated in the same manner as is specified in paragraph (v) for a Qualified Swap Agreement to be issued in connection with Variable Rate Indebtedness to be Outstanding after the date of calculation, and for this purpose any variable rate of interest agreed to be paid thereunder shall be assumed to be the rate assumed for Variable Rate Indebtedness described in paragraph (v).

"Maximum Rate" means, on any day, the maximum interest rate allowed by law.

"Metropolitan System" means any and all facilities, properties and improvements designated by the City in its sole discretion as part of the Metropolitan System, and used for the conveyance from the Municipal System and treatment of sewage collected by the City through its Municipal System or by any of the Participating Agencies.

"Metropolitan System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Metropolitan System, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Metropolitan System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Metropolitan System by or pursuant to law, earnings on any Reserve Fund for Obligations the proceeds of which were used to finance improvements which are part of the Metropolitan System, or to fund or refund any such Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (ii) the proceeds derived by the City directly or indirectly from

the sale, lease or other disposition of a part of the Metropolitan System; (iii) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Metropolitan System; and (iv) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for Components which are to be part of the Metropolitan System; and (v) grants received from the United States of America or from the State for Components which are to be part of the Metropolitan System; provided, however, that Metropolitan System Revenues shall not include: (a) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (b) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from Metropolitan System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there shall be added to Metropolitan System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Metropolitan System.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

"Municipal System" means any and all facilities, properties and improvements at any time owned, controlled or operated by the City, and designated by the City in its sole discretion as part of the Municipal System, for the collection of sewage from the points of origination thereof and the conveyance thereof to the Metropolitan System.

"Municipal System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Municipal System, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Municipal System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Municipal System by or pursuant to law, earnings on any Reserve Fund for Obligations the proceeds of which were used to finance improvements which are part of the Municipal System, or to fund or refund any such Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for debt service for such Obligations; (ii) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Municipal System; (iii) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Municipal System; (iv) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for Components which are to be part of the Municipal System; and (v) grants received from the United States of America or from the State for Components which are to be part of the Municipal System; provided, however, that Municipal System Revenues shall not include: (i) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (ii) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from Municipal System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement and there shall be added to Municipal System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Municipal System.

"Net Proceeds" means when used with respect to any insurance, self insurance or condemnation award, the proceeds from such award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

"Net Metropolitan System Revenues" means for any Fiscal Year, the Metropolitan System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Metropolitan System for such Fiscal Year.

"Net Municipal System Revenues" means for any Fiscal Year, the Municipal System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Municipal System for such Fiscal Year.

"Net System Revenues" means for any Fiscal Year, the System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Wastewater System for such Fiscal Year.

"1993 Bonds" means the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1993 (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Original Indenture.

"1993-1 Supplement" means the 1993-1 Supplement dated as of September 1, 1993 by and between the City and the Authority, supplementing and amending the Installment Purchase Agreement.

"1995 Bonds" means the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1995 (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Original Indenture as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture.

"1995-1 Supplement" means the 1995-1 Supplement dated as of December 1, 1995 by and between the City and the Authority, supplementing and amending the Installment Purchase Agreement.

"1997 Bonds" means, collectively, the 1997A Bonds and the 1997B Bonds.

"1997A Bonds" means the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1997A (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Original Indenture as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture.

"1997B Bonds" means the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1997B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Original Indenture as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture.

"1997-1 Supplement" means the 1997-1 Supplement dated as of February 1, 1997 by and between the City and the Authority, supplementing and amending the Installment Purchase Agreement.

"1998-1 Supplement" means the 1998-1 Supplement dated as of September 1, 1998 by and between the City and the Authority, supplementing and amending the Installment Purchase Agreement.

"1999 Bonds" means, collectively, the 1999A and the 1999B Bonds.

"1999A Bonds" means the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1999A (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

"1999A Component Installment Payments" means the Installment Payments specified in the 1999-1 Supplement which are to pay the Purchase Price of the 1999A Bonds.

"1999A Components" means the components of the Project specified in Exhibit A attached to the 1999-1 Supplement and made a part thereof, for which the City will be making Installment Payments as thereafter specified.

"1999B Bonds" means the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1999B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

"1999B Component Installment Payments" means the Installment Payments specified in the 1999-1 Supplement which are to pay the Purchase Price of the 1999B Bonds.

"1999B Components" means the components of the Project specified in Exhibit B attached to the 1999-1 Supplement and made a part thereof, for which the City will be making Installment Payments as thereafter specified.

"1999-1 Supplement" means the 1999-1 Supplement dated as of March 1, 1999 by and between the City and the Authority, supplementing and amending the Installment Purchase Agreement.

"Obligations" means (i) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal and interest on which are payable from Net System Revenues; (ii) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (iii) obligations secured by or payable from any of such obligations of the City; and (iv) obligations of the City payable from Net System Revenues under (a) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (b) any contract to exchange cash flows or a series of payments or (c) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate swap agreements and interest rate cap agreements.

"Opinion of Bond Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority and satisfactory to the Trustee.

"Original Indenture" means the Indenture, dated as of September 1, 1993, between the Authority and the Trustee.

"Outstanding" when used as of any particular time with reference to Bonds, means (other than Bonds owned or held by or for the account of the Authority or the City) all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the Indenture, except: (i) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of the Indenture; (iii) Bonds beneficially owned by the City or the Authority; and (iv) Bonds in lieu of or in substitution for which other Bonds shall have been executed by the Authority and authenticated and delivered pursuant to the Indenture; and the term "Outstanding," when used as of any particular time with respect to Obligations, means all Obligations theretofore or thereupon executed, authenticated and delivered by the City or any trustee or other fiduciary, except (i) Obligations theretofore cancelled or surrendered for cancellation; (ii) Obligations paid or deemed to be paid within the meaning of any defeasance provisions thereof; (iii) Obligations owned by the City or the Authority; (iv) Obligations in lieu of or in substitution for which other Obligations have been executed and delivered; and (v) Obligations assumed by the District or other successor in accordance with the Installment Purchase Agreement.

"Owner" means any person who shall be the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee pursuant to the Indenture, and the term "Owner," when used with respect to Obligations means any person who will be the registered owner of any outstanding Obligation certificate or other evidence of a right to receive Installment Payments directly or as security for payment of the Obligation.

"Paired Obligations" means any Series (or portion thereof) of Parity Obligations designated as Paired Obligations in a Supplement or related Issuing Instrument or other document authorizing the issuance or incurrence thereof, which are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be redeemed (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (ii) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the City for the terms of such Parity Obligations.

"Parity Installment Obligation" means Obligations consisting of or payable from Installment Payments which are not subordinated in right of payment to other Installment Payments.

"Parity Obligations" means (i) Parity Installment Obligations, (ii) Obligations the principal and interest of which are payable on a parity with Parity Installment Obligations, (iii) Qualified Take or Pay Obligations and (iv) Qualified Swap Agreements. Notwithstanding the foregoing, any amounts payable with respect to a Qualified Swap Agreement which represent termination payments or unwinding payments will not be deemed to be Parity Obligations unless (i) such Qualified Swap Agreement expressly states that such termination payments or unwinding payments are to be considered Parity Obligations and (ii) each Rating Agency which maintains a rating with respect to any Parity Obligation confirms in writing to the City that the inclusion of such termination payments or unwinding payments as Parity Obligations will not result in a downgrading, withdrawal or suspension of such rating.

"Participating Agencies" means the cities and other agencies providing local sewage collection services within their respective areas and which (i) have entered into contracts with the City pursuant to which the City is providing sewage collection, transportation, treatment or disposal services or (ii) are having such services provided by the District or other successor to the City to which the Metropolitan System has been transferred pursuant to the Installment Purchase Agreement.

"Payment Fund" means the fund designated in the Issuing Instrument as the fund into which Installment Payments are to be deposited for the purposes of paying principal or interest on related Obligations.

"Permitted Investments" means any of the following to the extent then permitted by law and the Indenture:

(1) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States and including a receipt, certificate or any other evidence of an ownership interest in an aforementioned obligation, or in specified portions thereof (which may consist of specified portions of interest thereon);

(2) (i) obligations issued by the Federal Farm Credit Bank, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association or the Tennessee Valley Authority, or (ii) obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal), or (iii) guaranteed portions of Small Business Administration notes, or (iv) obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise; provided, however, that prior to investing in investments described in clause (iv) hereof, the City will have provided to the Trustee evidence that such investment is then rated not lower than A by Moody's and S&P;

(3) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided, that at the time of their purchase such obligations are rated not lower than A by Moody's and S&P;

(4) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody's and S&P in their respective highest short-term rating categories, or, if the term of such indebtedness is longer than three years, rated not lower than A by Moody's and S&P;

(5) taxable commercial paper or tax-exempt commercial paper rated in their respective highest rating categories by Moody's and S&P;

(6) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirements by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption

(other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation; provided, that the variable rate obligations themselves are rated in their respective highest rating categories for its short-term rating, if any, and not lower than A for its long-term rating, if any, by Moody's and S&P, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than A by Moody's and S&P;

(7) deposits accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association, provided that such certificates of deposit shall be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation or (B) have maturities of not more than 365 days (including certificates of deposit) and are issued by, any state or national bank or a state or federal savings and loan association, the short term obligations of which are rated in the highest short term letter and numerical rating category by Moody's and S&P;

(8) bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated by Moody's and S&P in their respective highest short-term rating categories, and which bankers acceptances mature not later than 270 days from the date of purchase;

(9) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) and with short-term debt rated by Moody's and S&P in their respective three highest short-term rating categories or any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (1) or (2) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of such repurchase agreement and Trustee shall be entitled to rely on each such undertaking;

(10) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (1), (2), (3) and (9) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3) and (9) of this definition and which money market fund is rated in their respective highest rating categories by Moody's and S&P;

(11) any guaranteed investment contract approved in writing by Ambac with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated not lower than Aa/AA by Moody's and S&P;

(12) certificates, notes, warrants, bonds or other evidence of indebtedness of the State of California or of any political subdivision or public agency thereof which are rated in the highest short-term rating category or within one of the three highest long term rating categories of Moody's and S&P (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(13) for amounts less than \$10,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(14) investments in taxable money market funds or portfolios restricted to obligations maturing in one year or less and which funds or portfolios are rated in either of the two highest rating categories by Moody's and S&P, or have or are portfolios guaranteed as to payment of principal and interest by full faith and credit of the United States of America;

(15) any obligations which are then legal investments for moneys of the Authority under the laws of the State; provided, that if such investments are not required to be collateralized or insured such investments shall be issued by entities the debt securities of which are rated in one of the two highest short-term or long-term rating categories by Moody's and S&P; provided further, that any repurchase agreements must be fully secured by collateral security described in clauses (1) and (2) of this definition, which collateral (a) is held by the Trustee or a third party agent during the term of such repurchase agreement and in which collateral the Trustee has a perfected first security interest, (b) has a market value determined at least every thirty days at least equal to 103% of the amount so invested and (c) may be liquidated within seven days if the market value of such collateral is at any time less than the amount so invested;

(16) investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code;

(17) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (16) of this definition and which companies are rated in their respective highest rating categories by Moody's and S&P or have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000);

(18) for amounts held in the Acquisition Fund only, any interest rate swap agreement with a counterparty which has at the date of execution thereof an unsecured, uninsured and nonguaranteed long-term obligation rated not lower than A by Moody's and S&P; provided, that such counterparty may satisfy such rating requirements by providing an insurance policy for its obligations under any such swap agreement from an insurer whose unsecured ratings are in the rating categories required above, or alternatively by providing an unconditional, irrevocable, unsecured, uninsured and nonguaranteed guaranty of any other entity, including an affiliated entity, whose unsecured ratings are in the rating categories required above; and

(19) any other obligations which are approved in writing by Moody's (if Moody's is then rating the Bonds), S&P (if S&P is then rating the Bonds) and Ambac.

"Pre-Refunded Municipals" means any bonds or other obligations of any state of the United States of America or of any other agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and which are rated, based on the escrow, in the highest rating category of Moody's and S&P.

"Principal Portion" means the principal portion of Component Installment Payments specified in the 1999-1 Supplement.

"Prior Indenture" means the Indenture, dated as of September 1, 1993, between the Authority and the Trustee, as supplemented by the First Supplemental Indenture, dated as of May 1, 1994, the Second Supplemental Indenture, dated as of December 1, 1995, the Third Supplemental Indenture, dated as of February 1, 1997 and the Fourth Supplemental Indenture, dated as of September 1, 1998, each between the Authority and the Trustee.

"Project" means the construction, replacement and improvements to the Wastewater System described in an exhibit attached to the Installment Purchase Agreement and as modified with respect to Components in conformance with the Installment Purchase Agreement.

"Purchase Price" means the principal amount plus interest thereon owed by the City to the Authority under the terms of and as provided in the Installment Purchase Agreement.

"Qualified Swap Agreement" means a contract or agreement, payable from Net System Revenues on a parity with Parity Obligations, intended to place Obligations on the interest rate, currency, cash flow or other basis desired by the City, including, without limitation, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of,

or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the City and the counterparty; provided that not less than 30 days prior to the City's execution of such contract or agreement, each Rating Agency which maintains a rating with respect to any Parity Obligation receives notice in writing of the City's pending execution thereof; provided further that at the time of origination each Rating Agency which maintains a rating with respect to any Parity Obligation confirms in writing to the City that the City's execution and delivery of such contract will not result in a downgrading, withdrawal or suspension of such rating; and provided further, that the following requirements shall also be applicable, to the extent they are more restrictive than the foregoing conditions and so long as the Bond Insurer is insuring the payment of principal of and interest on any 1995 Bonds:

1. The provider of such contract or agreement must be rated at least A-/A3 or better by S&P and Moody's (the "Initial Rating Requirement").
2. After satisfaction of the Initial Rating Requirement, the long term indebtedness of such provider or the claims paying ability of such provider shall not fall below Baa2 or BBB by either S&P or Moody's.

"Qualified Take or Pay Obligation" means the obligation of the City to make use of any facility, property or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties or services are ever made available to the City for use, and there is provided to the City a certificate of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the provisions of the Installment Purchase Agreement.

"Rating Agencies" means Moody's and S&P, or whichever of them is rating Parity Obligations.

"Rebate Requirement" shall have the meaning specified in any Tax Certificate.

"Record Date" means the fifteenth day preceding an Interest Payment Date, whether or not such day is a Business Day.

"Reserve Requirement" means, as of any date of calculation, the least of (i) 10% of the proceeds of the Bonds, (ii) Maximum Annual Debt Service for the current or any future Fiscal Year or (iii) 125% of average Annual Debt Service. For purposes of determining if the amount on deposit in the Reserve Fund equals the Reserve Requirement, any Credit Facility shall be deemed to be a deposit in the face amount or stated amount of such Credit Facility, less any unreimbursed drawings or other amounts not reinstated under such Credit Facility.

"Revenues" means all Installment Payments pursuant to the Installment Purchase Agreement and the interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the Indenture.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw Hill Corp., a New York corporation, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

"Second Supplemental Indenture" means the Second Supplemental Indenture, dated as of December 1, 1995, between the Authority and the Trustee, supplementing and amending the Original Indenture and the First Supplemental Indenture.

"Serial Bonds" means Bonds for which no sinking fund payments are provided.

"Serial Parity Obligations" means Serial Obligations which are Installment Payments or are payable on a parity with Parity Installment Obligations.

"Serial Obligations" means Obligations for which no sinking fund payments are provided.

"Series" means Obligations issued at the same time or sharing some other common term or characteristic and designated as a separate Series.

"Sewer Revenue Fund" means the fund established pursuant to the Ordinances of the City Council of the City and which fund the City agrees and covenants to maintain so long as any Installment Payments or payments due by the City under any Qualified Swap Agreement remain unpaid, and all moneys in such fund shall be held in trust and applied and used solely as provided in the Installment Purchase Agreement.

"State" means the State of California.

"Subordinated Obligations" means any Obligations, the payment of principal and interest on which are subordinated in right of payment to Parity Obligations.

"Supplement" means a Supplement, substantially in the form of an exhibit attached to the Master Installment Purchase Agreement, dated as of September 1, 1993, between the Authority and the City, providing for the payment of specific Installment Payments as the Purchase Price for Components of the Project, executed and delivered by the City and the Authority.

"Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of the Indenture or supplemental thereto; but only if, and to the extent that, such Supplemental Indenture is specifically authorized under the Indenture.

"Surety Bond" means the Credit Facility issued by Ambac guaranteeing payments into the Reserve Fund as provided therein and subject to the limitations set forth therein.

"System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges (including standby capacity charges), or other moneys derived by the City from wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, but including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law, earnings on any Reserve Fund for Obligations but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (ii) the proceeds derived by the City directly or indirectly from the lease of a part of the Wastewater System; (iii) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Wastewater System; (iv) amounts received under contracts or agreements with governmental or private entities and designated for capital costs; and (v) grants received from the United States of America or from the State of California; provided, however, that System Revenues shall not include: (a) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (b) the proceeds of borrowings. Notwithstanding the foregoing, there will be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there will be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Wastewater System.

"Tax Certificate" means the certificate delivered with respect to the Bonds on which it is intended that interest thereon will be excluded from gross income pursuant to Section 103 of the Code.

"Tax-Exempt Installment Payment Obligations" means Installment Payment Obligations in respect of which it is intended that the interest component thereof will be excluded from gross income pursuant to Section 103 of the Code.

"Tender Indebtedness" means any Parity Obligations or portions of Parity Obligations, a feature of which is an option, on the part of the holders thereof, or an obligation, under the terms of such Parity Obligations, to tender

all or a portion of such Parity Obligations to the City, a Paying Agent or other fiduciary or agent for payment or purchase and requiring that such Bonds or portions of Bonds or that such rights to payments or portions of payments be purchased if properly presented.

"Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"Term Obligations" means Obligations which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

"Term Parity Obligations" means Term Obligations which are Parity Obligations or are payable on a parity with Parity Installment Obligations.

"Third Supplemental Indenture" means the Third Supplemental Indenture, dated as of February 1, 1997, between the Authority and the Trustee, supplementing and amending the Original Indenture, the First Supplemental Indenture and the Second Supplemental Indenture.

"Treasurer" means the Treasurer of the City.

"Trustee" means State Street Bank and Trust Company of California, N.A., a national banking association existing under and by virtue of the laws of the United States, or any other association or corporation which may at any time be substituted in its place as provided in the Indenture.

"Variable Rate Indebtedness" means any portion of indebtedness evidenced by Parity Obligations the interest rate on which is not established at the time of incurrence of such indebtedness and has not, at some subsequent date, been established at a rate which is not subject to fluctuation or subsequent adjustment, excluding Paired Obligations.

"Wastewater Service" means the wastewater collection and treatment services made available or provided by the Wastewater System.

"Wastewater System" means any and all facilities, properties and improvements at any time owned, controlled or operated by the City as part of the Sewer Revenue Fund (defined in the Installment Purchase Agreement) for the collection, treatment, distribution, administration, disposal or reclamation of waste, including the Municipal System and the Metropolitan System. After any transfer of the Metropolitan System permitted by the Installment Purchase Agreement, the term "Wastewater System" shall mean the Municipal System with respect to the City and the Metropolitan System with respect to the transferee.

"Written Request of the Authority" means an instrument in writing signed by the President, the Vice President, the Secretary or the Assistant Secretary of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose.

"Written Request of the City" means an instrument in writing signed by the City Manager or the Financial and Technical Services Business Center Manager of the City, or by any other official of the applicable administrative departments of the City duly authorized by the City for that purpose.

APPENDIX D
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following are brief summaries of certain provisions of the Indenture, the Installment Purchase Agreement and the Continuing Disclosure Agreement. These summaries do not purport to be full and complete statements of the provisions of such documents and are qualified in their entirety by reference to the complete text of such documents. Prior to delivery of the 1999 Bonds, copies of these documents are available from the City and after delivery of the 1999 Bonds, from the Trustee.

THE INDENTURE

General

The Indenture sets forth the terms of the Bonds, the nature and extent of the security for the Bonds, various rights of the Owners of the Bonds, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized below. Other provisions are summarized in this Official Statement under the caption "DESCRIPTION OF THE SERIES 1999 BONDS." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture will be deemed to be and will constitute a contract between the Authority and the Trustee for the benefit of the Owners from time to time of all Bonds authorized, executed, issued and delivered under the Indenture and then Outstanding to secure the full and final payment of the interest on and principal of and redemption premiums, if any, on all Bonds which may from time to time be authorized, executed, issued and delivered under the Indenture, subject to the agreements, conditions, covenants and provisions contained in the Indenture and all agreements and covenants set forth in the Indenture to be performed by or on behalf of the Authority will be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, whatsoever, except as expressly provided in the Indenture or therein.

Establishment of Funds and Accounts. The Authority will establish and maintain the Acquisition Fund to be held by the Treasurer and disbursed by the Auditor and Comptroller in accordance with the Indenture. The Indenture establishes the Payment Fund and the Reserve Fund. Within the Payment Fund, the Trustee will establish and maintain an Interest Account, a Principal Account, a Bond Sinking Account and a Redemption Account. Each of the funds and accounts established in the Indenture will be maintained by the Trustee separate and apart from all other moneys of the Authority held by it, for the benefit of the Authority, the City and the Owners of the Bonds and will be expended solely as provided in the Indenture.

Application of the Acquisition Fund. The Treasurer will hold the moneys in the Acquisition Fund and the Auditor and Comptroller will disburse such moneys to pay Acquisition Costs and to pay Costs of Issuance. Such disbursements will be made from time to time upon receipt of a Written Request of the City on behalf of the Authority which states with respect to each disbursement to be made: (a) (1) the requisition number, (2) the name and address of the person, firm or corporation to whom payment is due, (3) the amount to be disbursed, and (4) that each obligation therein has been properly incurred, and is a proper charge against the Acquisition Fund and has not been the basis of any previous disbursement; (b) specifies in reasonable detail the nature of the obligation; and (c) is accompanied by a bill or statement of account for each obligation.

If, after payment by the Auditor and Comptroller of all Written Requests of the City on behalf of the Authority tendered under the provisions of the Indenture, and delivery to the Treasurer, the Auditor and Comptroller and the Trustee of a Certificate of Completion, there remains any balance of money in the Acquisition Fund, all money so remaining will be transferred to the Trustee and deposited, first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement, and thereafter to the accounts of the Payment Fund as directed by the Authority.

Pledge of Revenues. Subject only to the provisions of the Indenture permitting the application thereof for the purpose and on the terms and conditions set forth therein, while any Bonds remain Outstanding, all Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal of the Bonds.

Pursuant to the Indenture, the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights under the Installment Purchase Agreement (excepting certain indemnification rights thereunder), including the right to receive Installment Payments from the City, the right to receive any proceeds of insurance maintained under the Installment Purchase Agreement or any condemnation award rendered with respect to the Project and the right to exercise any remedies provided in the Installment Purchase Agreement in the event of default by the City under the Installment Purchase Agreement.

The Trustee will be entitled to and will receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed held, collected or received by the Authority as agent of the Trustee and will forthwith be paid by the Authority to the Trustee.

Application of the Payment Fund. Subject to the provisions of the Indenture relating to the Authority's Tax Covenants, all money in the Payment Fund will be set aside by the Trustee in the following accounts within the Payment Fund in the following order of priority:

- (a) Interest Account,
- (b) Principal Account, and
- (c) Redemption Account.

All money in each of such accounts will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

Interest Account. On or before each Interest Payment Date, the Trustee will set aside from the Payment Fund and deposit in the Interest Account that amount of money which, together with any money contained in the Interest Account, is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. No deposit need be made in the Interest Account if the amount contained in the Interest Account is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. On or before May 15 of each year the Trustee will set aside from the Payment Fund and deposit in the Principal Account an amount of money equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on such May 15 plus the aggregate amount of all sinking fund payments required to be made with respect to the Term Bonds on such May 15. No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such May 15 plus the aggregate amount of all sinking fund payments required to be made on such May 15 for all Outstanding Term Bonds.

The Trustee will establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "Sinking Account" (the "Sinking Account"). With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee will apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture or in the Supplemental Indenture pursuant to which such series of Bonds were issued; provided that, at any time prior to giving such notice of such redemption, at the direction of the

City or the Authority, the Trustee may apply moneys in such Sinking Account to the purchase of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as will be determined by the Authority, except that the purchase price (excluding accrued interest) will not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased will be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they will become due and payable, except that any money in any Sinking Account will be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such Sinking Account was created.

Redemption Account. All money in the Redemption Account will be held in trust by the Trustee and will be applied, used and withdrawn either to redeem Bonds pursuant to the Indenture or for the purposes authorized in the Indenture. Any moneys which, pursuant to the prepayment section of the Installment Purchase Agreement, are to be used to redeem Bonds will be deposited by the Trustee in the Redemption Account. The Trustee will, on the scheduled redemption date, withdraw from the Redemption Account and pay to the Owners entitled thereto an amount equal to the redemption price of the Bonds to be redeemed on such date.

Any delinquent Installment Payments with respect to the Project will be applied first to the Interest Account for the immediate payment of interest payments past due and then to the Principal Account for immediate payment of principal payments past due according to the tenor of any Bond, and then to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement. Any remaining money representing delinquent Installment Payments will be deposited in the Payment Fund to be applied in the manner provided therein.

Reserve Fund. After making the required deposits into the accounts of the Payment Fund, the Trustee will deposit in the Reserve Fund an amount of money which, together with the amount already on deposit therein, will be equal to the Reserve Requirement. No deposit need be made in the Reserve Account so long as there will be on deposit therein a sum equal to at least the Reserve Requirement. The Trustee will promptly notify the City if the amount on deposit in the Reserve Account is less than the Reserve Requirement.

All money in the Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of paying the interest on, or principal of, or redemption premiums, if any, on the Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all Bonds then Outstanding. All interest income received by the Trustee on investment of moneys in the Reserve Fund will be retained in the Reserve Fund so long as amounts on deposit in the Reserve Fund are less than the Reserve Requirement. Subject to the foregoing, earnings and profits on investments in the Reserve Fund after completion of the Project will be transferred to the Payment Fund.

Notwithstanding anything in the Indenture to the contrary, at the option of the City, amounts required to be held in the Reserve Fund may be withdrawn, in whole or in part, upon the deposit of a Credit Facility with the Trustee, in a stated amount equal to the amounts so withdrawn; provided, that prior to the deposit of such Credit Facility, each of the Rating Agencies then rating the Bonds will be notified of such proposed withdrawal and the deposit of such Credit Facility will not result in a withdrawal or downgrading of any rating of the Bonds then in effect by each of the Rating Agencies then rating the Bonds. Any such withdrawn moneys will be transferred, at the election of the City, to the Acquisition Fund, to the Redemption Account in the Payment Fund, to the Principal Account in the Payment Fund or to a special account to be established for the payment of any fees in connection with obtaining such Credit Facility.

Rebate Fund. To the extent required by the Tax Certificate, certain amounts made available by the Authority pursuant to a Written Request of the City will be deposited by the Trustee in the Rebate Fund and thereafter paid to the federal government of the United States of America to the extent required to satisfy the Rebate

Requirement (as defined in the Tax Certificate). None of the City, the Authority, the Trustee nor the Owners of the Bonds will have any right in or claim to such money. Any moneys remaining in the Rebate Fund after payment or prepayment of all of the Bonds and payment and satisfaction of any Rebate Requirement, after payment of all fees and expenses of the Trustee, will be remitted to the City.

Investment of Moneys in Funds and Accounts. Moneys in the Acquisition Fund will be accounted for by the Auditor and Comptroller and invested by the Treasurer in any legally permitted investment, including but not limited to the pooled investment fund of the Treasurer. Moneys in the Reserve Fund and the Payment Fund and any accounts therein will, upon the Written Request of the City, be invested by the Trustee in Permitted Investments. In the absence of a Written Request of the City, the Trustee may invest moneys in such funds and accounts in Permitted Investments described in clause (7) of the definition of Permitted Investments. The obligations in which moneys in the said funds and accounts are invested will mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture; provided that with respect to the Reserve Fund, such obligations will mature no later than ten years from the date of the purchase. Prior to the completion of the acquisition, construction, installation and improvement of the Project, any interest, income or profits from the deposits or investments of all funds and accounts (except the Rebate Fund) will be retained in such fund or account, except that interest, income and profits from the deposits or investments of the Reserve Fund will be deposited in the Interest Account of the Payment Fund so long as amounts on deposit in the Reserve Fund are at least equal to the Reserve Requirement. After the completion of the acquisition, construction, installation and improvement of the Project, any interest, income or profits from the deposits or investments of all funds and accounts (except the Rebate Fund) will be deposited first to the Reserve Fund to the extent amounts on deposit therein are less than the Reserve Requirement, and thereafter to the Interest Account of the Payment Fund. For purposes of determining the amount on deposit in any fund or account held under the Indenture, all investments will be valued at the market value thereof. The Trustee will value the investments in the funds and accounts held under the Indenture semi-annually, on or about May 15 and November 15, and at such times as the Authority deems appropriate.

Issuance of Additional Bonds

The Authority may by Supplemental Indenture issue Additional Bonds payable from the Revenues and secured by the pledge of the Revenues made under the Indenture equal to the pledge securing the Outstanding Bonds previously issued, but only upon compliance by the Authority with the provisions of the Indenture and any additional requirements set forth in such Supplemental Indenture and subject to the following specific conditions, which are conditions precedent to the issuance of any such Additional Bonds.

(a) The Authority will be in compliance with all agreements and covenants contained in the Indenture and all agreements and covenants contained in the Installment Purchase Agreement.

(b) The Authority will have satisfied the requirements relating to Additional Obligations in the Installment Purchase Agreement.

(c) The issuance of such Additional Bonds will have been authorized by the Authority and will have been provided for by Supplemental Indenture which will specify the following:

(1) the purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds will be applied solely for the purpose of (i) financing or refinancing additional improvements to the Project, and/or (ii) refunding any Bonds then Outstanding;

(2) the authorized principal amount and designation of such Additional Bonds;

(3) the dated date and the maturity dates of, and the sinking fund payment dates, if any, the interest payment dates (which will be Interest Payment Dates) for such Additional Bonds;

(4) that such Additional Bonds will be issued only in Authorized Denominations;

(5) the redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(6) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account;

(7) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Acquisition Fund;

(8) the amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund, which amount will be sufficient to cause the amount on deposit in the Reserve Account to equal the Reserve Requirement upon the issuance of such Additional Bonds;

(9) the forms of such Additional Bonds; and

(10) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(d) The Installment Purchase Agreement will have been amended to increase the Installment Payments by the City thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due.

Nothing contained in the Indenture will limit the issuance of any revenue bonds of the Authority payable from the Revenues and secured by a pledge of the Revenues if after the issuance and delivery of such revenue bonds none of the Bonds issued under the Indenture will be Outstanding.

Selected Covenants of the Authority

Punctual Payment and Performance. The Authority will punctually pay the interest on and the principal of and redemption premiums, if any, to become due on every Bond issued under the Indenture in strict conformity with the terms of the Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained in the Indenture and in the Bonds.

Tax Covenants. The Authority will not use or permit any proceeds of the 1999 Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, which would cause any 1999 Bonds to be an "arbitrage bond" within the meaning of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1986, as amended. The Authority will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority will comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the 1999 Bonds.

The Authority will not use or permit the use of any proceeds of the 1999 Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the 1999 Bonds to be treated as an obligation not described in Section 103(a) of the Code.

Notwithstanding any provisions of the Indenture, if the Authority provides to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the 1999 Bonds, the Trustee, the Authority and the City may conclusively rely on such opinion in complying with the requirements of the Indenture and the covenants under the Indenture will be deemed to be modified to that extent.

Eminent Domain. If the whole of the Project or so much as to render the remainder unusable for the purposes for which it was used or intended to be used by the City will be taken under the power of eminent domain,

the term of the Installment Purchase Agreement will cease as of that day that possession will be taken. The Authority will take or cause to be taken such action as is reasonably necessary to obtain compensation at least equal to the value of the Project or portion thereof taken by eminent domain. If less than the whole of the Project is taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Installment Purchase Agreement will continue in full force and effect as to such remainder, and the parties thereto waive the benefits of any law to the contrary. So long as any of the Bonds will be Outstanding, the net proceeds of any award made in eminent domain proceedings for taking the Project or any portion thereof will be transferred to the Payment Fund. Any such award made after all of the Bonds have been fully paid and retired will be paid to the City.

Accounting Records and Reports. The Authority will keep or cause to be kept proper books of record and accounts in which complete and correct entries will be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books will be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than two hundred seventy (270) days after the close of each Fiscal Year, the Authority will furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Authority Fiscal Year, and including a profit and loss statement and balance sheet. The Authority will also keep or cause to be kept such other information as is required under the Tax Certificate.

The City's Budget. The Authority will supply to the Trustee, as soon as practicable after the beginning of each Fiscal Year, a Certificate of the City certifying that the City has made adequate provision in its annual budget for such Fiscal Year for the payment of all installments due under the Installment Purchase Agreement in such Fiscal Year. If the amounts so budgeted are not adequate for the payment of all installments due under the Installment Purchase Agreement in such Fiscal Year, the Authority will take such action as may be necessary and within its power to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be paid by the City in such Fiscal Year for the payment of all installments due under the Installment Purchase Agreement in such Fiscal Year, and will notify the Trustee of the proceedings then taken or proposed to be taken by the Authority.

Installment Purchase Agreement and Other Documents. The Authority will at all times maintain and vigorously enforce all of its rights under the Installment Purchase Agreement, and will promptly collect all installments due for the purchase of the Project as the same become due under the Installment Purchase Agreement, and will promptly and vigorously enforce its rights against any person who does not pay such installments as they become due under the Installment Purchase Agreement. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Purchase Agreement by the purchaser thereunder.

Other Liens. The Authority will keep the Project free from judgements, mechanics' and materialmen's liens (except those arising from the acquisition, construction and installation of the Project) and free from all liens, claims, demands and encumbrances of whatsoever prior nature or character to the end that the security for the Bonds provided in the Indenture will at all times be maintained and preserved free from any claim or liability which, in the judgment of the Trustee, might hamper the Authority in conducting its business or interfere with the City's operation of the Project, and the Trustee at its option may (but will not be obligated to) defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceeding; provided, however, that in defending such actions or proceedings or in paying or compromising such claims or demands the Trustee will not in any event be deemed to have waived or released the Authority from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability to defend the validity of the Indenture and the pledge of the Revenues made therein and to perform such agreements and covenants. Nothing in the Indenture will preclude the City, or require the Authority to prevent, the operation or transfers of the Project as permitted under the Installment Purchase Agreement.

Acquisition and Construction of the Project and Sale of the Project. The Authority will acquire and construct the Project, or cause the Project to be acquired and constructed, with moneys in the Acquisition Fund and will sell the Project to the City pursuant to the Installment Purchase Agreement.

The Trustee

Appointment and Acceptance of Duties. Pursuant to the Indenture, the Trustee accepts and agrees to the trusts created by the Indenture, to all of which the Authority agrees and the respective Owners of the Bonds, by their purchase and acceptance thereof, agree.

Duties, Immunities and Liabilities of Trustee. The Trustee will, prior to an event of default under the Indenture, and after the curing of all events of default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations will be read into the Indenture against the Trustee. The Trustee will, during the existence of any event of default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

So long as no event of default under the Indenture has occurred and is continuing, the Authority, with the consent of Ambac, may remove the Trustee at any time and will remove the Trustee if at any time requested to do so by Ambac for any breach of the trust set forth in the Indenture, or by an instrument in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding or if at any time the Trustee will cease to be a trust company or bank having the powers of a trust company, having a corporate trust office in California, having a combined capital and surplus of \$100,000,000, and subject to supervision or examination by federal or state authority, or will become incapable of acting, or will commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property will be appointed, or any public officer will take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon will appoint a successor Trustee by an instrument in writing, but any successor trustee must be a trust company or bank having the powers of a trust company, having a corporate trust office in California, having a combined capital and surplus of \$100,000,000 and acceptable to Ambac, and subject to supervision or examination by federal or state authority.

The Trustee may resign by giving prior written notice of such resignation to the Authority and Ambac, and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the bond register. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and will have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the Authority, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Amendment of the Indenture

The Indenture and the rights and obligations of the Authority and of the Owners may be amended at any time by a Supplemental Indenture which will become binding when the written consents of Ambac and the Owners of at least 60% in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment will (a) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Authority to pay the interest on or principal of or redemption premium, if any, on any Bond at the time and place and at the rate and in the currency provided in the Indenture without the express written consent of the Owner of such Bond, or (b) permit the creation by the Authority of any pledge of the Revenues superior to or on a parity with the pledge created thereby for the benefit of the Bonds, or (c) increase the dollar amount of the Bonds, or (d) modify any rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which will become binding upon adoption without the consent of any Owners (but with the consent of Ambac), but only to the extent permitted by law and after receipt of an approving opinion of Bond Counsel, but only for any one or more of the following purposes: (a) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture

in regard to questions arising thereunder which the Authority may deem desirable or necessary and not inconsistent therewith and which will not adversely affect the interests of the Owners; (b) to make any other change or addition to the Indenture which will not materially adversely affect the interests of the Owners, or to surrender any right or power reserved therein to or conferred therein on the Authority; or (c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Indenture.

Any amendment or supplement to the Indenture (other than amendments or supplements executed and delivered in connection with the issuance of additional Obligations pursuant to the Installment Purchase Agreement) is subject to the prior written consent of the Bond Insurer, which consent will not be unreasonably withheld.

Events of Default and Remedies of Owners

The following will be events of default under the Indenture:

- (a) failure in the due and punctual payment of the interest on any Bond when and as the same will become due and payable;
- (b) failure in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same will become due and payable, whether at maturity as therein expressed or by proceedings for redemption;
- (c) failure by the Authority in the performance of any of the other agreements or covenants required on its part contained in the Indenture, and such default has continued for a period of 60 days after the Authority has been given written notice of such default by the Trustee or by a Credit Facility provider or to the Authority and the Trustee by Owners of not less than 25% of the Bonds;
- (d) if any event of default will have occurred and be continuing under the Installment Purchase Agreement; or
- (e) if the Authority files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction approves a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Authority or of the whole or any substantial part of its property.

If an event of default has occurred and is continuing, the Trustee may, with the consent of Ambac, or will, at the direction of Ambac, or upon the written request of the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding, with the consent of Ambac, by written notice to the Authority and Ambac, will declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become due and payable.

In addition, the Trustee in its discretion may, and at the written request of the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding or any provider of a then existing Credit Facility, and upon being indemnified to its satisfaction therefor, will proceed to enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of the Bonds under the Indenture, the Bonds or any law by whatever appropriate judicial proceeding or proceedings the Trustee deems most effectual.

Anything in the Indenture to the contrary notwithstanding, subject to the consent of Ambac and to the limitations and restrictions as to the rights of the Owners, upon the happening and continuance of any event of default under the Indenture, the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding will have the right upon providing the Trustee security and indemnity reasonably satisfactory to it, to direct the method and place of all remedial proceedings to be taken by the Trustee under the Indenture. The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is

prejudicial to rights of other Owners or would subject the Trustee to personal liability. No Owner of any of the Bonds will have any right to institute any proceeding for the enforcement of any trust under the Indenture, or any other remedy thereunder or on said Bonds, unless such Owner previously has given to the Trustee written notice of an event of default and unless the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding will have made written request of the Trustee to institute any such proceeding or other remedy, after the right to exercise such powers will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also will have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will not have complied with such request within a reasonable time.

Control of Remedies by Credit Providers Upon Default

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default under the Indenture, Ambac will be entitled to control and direct the enforcement of all rights and remedies granted to (1) the Owners of the Insured 1993 Bonds or (2) the Trustee for the benefit of such Owners under the Indenture, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in the Indenture and (ii) the right to annul any declaration of acceleration. Ambac will also be entitled to approve all waivers of events of default.

With respect to the provisions of the Indenture governing events of default and the exercise of remedies thereupon, except the giving of notice of default to Owners of the 1995 Bonds, the Bond Insurer will be deemed to be the sole holder of the 1995 Bonds it has insured and any acceleration of the 1995 Bonds or any annulment thereof will be subject to the prior written consent of the Bond Insurer (in each case so long as it has not failed to comply with its payment obligations under its bond insurance policy securing the 1995 Bonds). Identical provisions are applicable to the 1997 Bonds and the Insured 1999 Bonds. See "Fifth Supplemental Indenture" below.

Defeasance

If the Authority pays or causes to be paid or there is otherwise paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated therein, then the Owners of such Bonds will cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds thereunder will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the above paragraph, when any of the Bonds will have been paid and the Authority has kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged as to such Bonds.

Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority will have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (2) there will have been deposited with the Trustee either (A) money in an amount which will be sufficient or (B) Federal Securities of which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of Treasury of the United States of America) and/or Pre-Refunded Municipals, the interest on and principal of which when due, and without any reinvestment thereof, will provide money which, together with the money, if any, deposited with the Trustee at the same time, will, as verified by an independent certified public accountant, be sufficient, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority will have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as

practicable, a notice to the Owners of such Bonds and to the Securities Depositories and the Information Services that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

Provisions Relating to Ambac

Consent of Ambac. No provision in the Installment Purchase Agreement, as amended from time to time, which expressly recognizes or grants rights in or to Ambac may be amended in any manner which adversely affects the rights of Ambac under the 1998-1 Supplement or thereunder, without the prior written consent of Ambac.

Access to Information. So long as the Surety Bond is in effect, the City will furnish to Ambac a copy of the financial statements described in Section 6.12(b)(1) of the Installment Purchase Agreement, within the time period provided therein, and a copy of any notice given to Owners by the City and, to the extent that an Event of Default under the Installment Purchase Agreement has occurred and is continuing, such additional information as Ambac will reasonably request. During the continuance of any such Event of Default, the City will permit Ambac to discuss the affairs, finances and accounts of the City with appropriate officers of the City and will permit Ambac to have access to the Project and will cause the Trustee to make copies of all books and records relating to the Bonds upon payment of the reasonable expenses of the Trustee therefor. The City will also provide to Ambac copies of financial statements, annual reports and event reports relating to the Bonds as and when provided under the Continuing Disclosure Agreements entered into by the City pursuant to Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Fifth Supplemental Indenture

Creation of 1999A Account of Acquisition Fund; Use of Moneys in 1999A Account. There is created in the Acquisition Fund an account designated as the "1999A Account." The Treasurer will hold the moneys in the 1999A Account of the Acquisition Fund and the Auditor and Comptroller will disburse such moneys therefrom to pay Acquisition Costs relating to the Metropolitan System and to pay Costs of Issuance with respect to the 1999A Bonds.

If, after payment by the Auditor and Comptroller of all Written Requests of the City on behalf of the Authority theretofore tendered to the Auditor and Comptroller under the provisions of the Fifth Supplemental Indenture and delivery to the Treasurer, the Auditor and Comptroller and the Trustee of a Certificate of Completion with respect to the portion of the Project to be financed with amounts on deposit in the 1999A Account, there remains any balance of money in the 1999A Account, all money so remaining will be transferred to the Trustee and deposited, first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement, and thereafter to the accounts of the Payment Fund as directed by the Authority.

Creation of 1999B Account of Acquisition Fund; Use of Moneys in 1999B Account. There is created in the Acquisition Fund an account designated as the "1999B Account." The Treasurer will hold the moneys in the 1999B Account of the Acquisition Fund and the Auditor and Comptroller will disburse such moneys therefrom to pay Acquisition Costs relating to the Municipal System and to pay Costs of Issuance with respect to the 1999B Bonds.

If, after payment by the Auditor and Comptroller of all Written Requests of the City on behalf of the Authority theretofore tendered to the Auditor and Comptroller under the provisions of the Fifth Supplemental Indenture and delivery to the Treasurer, the Auditor and Comptroller and the Trustee of a Certificate of Completion with respect to the portion of the Project to be financed with amounts on deposit in the 1999B Account, there remains any balance of money in the 1999B Account, all money so remaining will be transferred to the Trustee and deposited, first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement, and thereafter to the accounts of the Payment Fund as directed by the Authority.

Pledge of Revenues. Pursuant to the Indenture, the 1999 Bonds are limited obligations of the Authority and are payable solely from the Revenues (which Revenues include Installment Payments made pursuant to the

Installment Purchase Agreement) and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). All such moneys are irrevocably pledged to the payment of the interest on and principal of the 1999 Bonds as provided in the Indenture. The pledge made under the Indenture constitutes a first lien and pledge of Revenues, and within such lien priority, 1999 Bonds are of equal rank, without preference, priority or distinction, with all other Bonds Outstanding.

Tax Covenants. The Authority covenants to comply with the provisions and procedures of the Tax Certificate relating to the 1999 Bonds, including depositing of all amounts required to be deposited in the Rebate Fund from the sources specified in the Indenture.

The Authority will not use or permit any proceeds of the 1999 Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, which would cause any 1999 Bonds to be an "arbitrage bond" within the meaning of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder and under Section 103(c) of the Code. The Authority will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority will comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the 1999 Bonds.

The Authority will not use or permit the use of any proceeds of the 1999 Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the 1999 Bonds to be treated as an obligation not described in Section 103(a) of the Code.

Notwithstanding any provisions of the tax covenants of the Fifth Supplemental Indenture, if the Authority provides to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the tax covenants of the Fifth Supplemental Indenture is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the 1999 Bonds, the Trustee, the Authority and the City may conclusively rely on such opinion in complying with the requirements of the tax covenants of the Fifth Supplemental Indenture and, notwithstanding the Prior Indenture, the covenants under the Fifth Supplemental Indenture will be deemed to be modified to that extent.

Continuing Disclosure. The Trustee covenants and agrees that it will comply and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the City or the Trustee to comply with the Continuing Disclosure Agreement will not be considered an Event of Default; however, the Trustee may (and, at the request of any Participating Underwriter, the Bond Insurer or the Owners of at least 25% in aggregate principal amount of Outstanding 1999 Bonds, will) or the Bond Insurer or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations under the 1999-1 Supplement or to cause the Trustee to comply with its obligations under the Fifth Supplemental Indenture.

Year 2000 Readiness. The Trustee will take reasonable steps to ensure that its products (and those of its third-party suppliers) reflect the available state of the art technology to offer products that are Year 2000 compliant, including, but not limited to, century recognition of dates, calculations that correctly compute same century and multi-century formulas and date values, and interface values that reflect the date issues arising between now and the next one hundred years, and if any changes are required, the Trustee will make the changes to its products at no cost to the City or the Authority and in a commercially reasonable time frame and will require third-party suppliers to do likewise.

Control of Remedies. With respect to the provisions of the Indenture governing events of default and the exercise of remedies thereupon, except the giving of notice of default to Owners of the 1997 Bonds, the Bond Insurer will be deemed to be the sole holder of the 1997 Bonds it has insured and any acceleration of such 1997 Bonds or any annulment thereof will be subject to the prior written consent of the Bond Insurer (in each case so long as it has not failed to comply with its payment obligations under its bond insurance policy securing such 1997 Bonds). Identical provisions are applicable to the 1999 Bonds.

THE INSTALLMENT PURCHASE AGREEMENT

General

The Installment Purchase Agreement provides the terms and conditions of the purchase of the Project by the City. Certain provisions of the Installment Purchase Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Installment Purchase Agreement.

Acquisition and Construction of the Project. The Authority has agreed to cause the Project to be constructed, acquired and installed by the City, as agent of the Authority. The City will enter into contracts and provide for, as agent of the Authority, the complete construction, acquisition and installment of the Project. The City has agreed that it will cause the construction, acquisition and installation of the Project to be diligently performed. Except to the extent of proceeds of the Obligations which are deposited in the Acquisition Fund, the Authority will be under no liability of any kind or character whatsoever for the payment of any cost of any Components. In the event the proceeds of the Obligations deposited in the Acquisition Fund are insufficient to complete the construction, acquisition and installation of Components, the City will cause to be deposited in the Acquisition Fund (or otherwise appropriate and encumber) from and to the extent of available amounts on deposit in the Sewer Revenue Fund (or other lawfully available moneys) an amount equal to that necessary to complete the construction, acquisition and installation of such Components.

The Authority will not undertake to cause any component of the Project to be constructed, acquired or installed unless and until the City and the Authority have entered into a Supplement specifying the components of the Project to be installed, the date of completion, the Purchase Price to be paid by the City under the Installment Purchase Agreement for that Component of the Project, and the Installment Payments or the method of calculating Installment Payments.

Changes to the Project. The City may modify or amend the description of the Project, to eliminate any part thereof and/or to substitute another Project or Projects, all without obtaining any consent, by filing such modification or amendment with the Authority and the Trustee; provided that no such amendment will substitute a Project or Projects which are not to be owned by the Sewer Revenue Fund or will in any way impair the obligations of the City contained in any Supplement executed prior to such amendment. The City may substitute other improvements for those listed as Components in any Supplement, but only if the City first files with the Authority and the Trustee a certificate of an Authorized City Representative: (a) identifying the Components to be substituted and the Components they replace; (b) stating that the substituted Components will be owned by the Sewer Revenue Fund; and (c) stating that with respect to Components financed with Tax-Exempt Installment Obligations, the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned.

Installment Payments

Purchase Price. The City will pay the Purchase Price for any Components being purchased as provided in a Supplement. The Purchase Price to be paid by the City under any Supplement to the Installment Purchase Agreement, solely from Net System Revenues and from no other sources, is the sum of the principal amount of the City's obligations under any Supplement plus the interest to accrue on the unpaid balance of such principal amount from the effective date and over the term of the Supplement, subject to prepayment provisions as provided therein.

The principal amount of the Installment Payments and the interest accrued thereon to be made by the City under a Supplement will be paid as specified in such Supplement. Interest will be payable in an amount not exceeding the Maximum Rate. In the event that the principal amount of an Installment Payment is not paid by the date such the same is due and payable in such Supplement, or interest is not paid by the date such interest is payable, to the extent permitted by applicable law, such principal or interest will thereafter bear interest at the Default Rate, commencing on the day the same is due, to, but not including, the payment date.

Installment Payments. The City may, subject to any rights of prepayment provided in a Supplement, pay to the Authority, solely from Net System Revenues and from no other sources, the Purchase Price in Installment Payments over a period not to exceed the maximum period permitted by law.

The obligation of the City to make the Installment Payments solely from Net System Revenues is absolute and unconditional, and until such time as the Purchase Price has been paid in full (or provision for the payment thereof has been made, the City will not discontinue or suspend any Installment Payments required to be made by it when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The City agrees and covenants under the Installment Purchase Agreement that all System Revenues will be received by the City in trust and will be deposited when received in the Sewer Revenue Fund. The City agrees and covenants to maintain the Sewer Revenue Fund so long as any Installment Payments or payments due by the City under any Qualified Swap Agreement remain unpaid, and all moneys in the Sewer Revenue Fund will be so held in trust and applied and used solely as provided in the Installment Purchase Agreement.

Selected Covenants of the City

Compliance with Installment Purchase Agreement; Ancillary Agreements. The City will punctually pay Parity Obligations in strict conformity with the terms of the Installment Purchase Agreement and thereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement and will not terminate the Installment Purchase Agreement for any cause including, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement or any duty, liability or obligation arising out of or connected therewith or the insolvency, or bankruptcy, or liquidation of the Authority, or any force majeure, including but not limited to, acts of God or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement, including Supplements, and any Issuing Instrument or Qualified Swap Agreement relating to Parity Obligations required to be observed and performed by it and each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for each Component by the City pursuant to, in accordance with, and as authorized under the Law.

Against Encumbrances, Sale or Competitive Facilities. The City will not make any pledge of or place any lien on the Net System Revenues except as otherwise provided in the Installment Purchase Agreement. The City will not sell, lease or otherwise dispose of the Wastewater System or any part thereof essential to the proper operation of the Wastewater System or to the maintenance of the System Revenues, except as provided in the Installment Purchase Agreement. The City will not enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Net System Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of the Authority with respect to the System Revenues or the operation of the Wastewater System.

Except as permitted under the Installment Purchase Agreement, the City will not, to the extent permitted by existing law, construct, acquire, maintain or operate and will not, to the extent permitted by existing law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any wastewater system competitive with the City's Wastewater System.

Transfer of Metropolitan System Components. Notwithstanding anything to the contrary in the Installment Purchase Agreement, the City may transfer ownership of substantially all of the Metropolitan System, including amounts in the Sewer Revenue Fund attributable to the Metropolitan System, and any amounts in the Rate

Stabilization Fund agreed upon by the City and the transferee as being attributable to the Metropolitan System, to the District or any other governmental agency whose primary purpose is to provide wastewater treatment and disposal service, provided such entity agrees to assume all Obligations the proceeds of which were used to acquire Components which are part of the Metropolitan System and all other obligations relating to the Metropolitan System which are payable from Metropolitan System Revenues, Net Metropolitan System Revenues, System Revenues or Net System Revenues, including but not limited to salaries and benefits payable to employees who are to become employees of such entity, all accounts payable, Qualified Swap Agreements, Credit Provider Reimbursement Obligations and all other obligations with respect thereto such as capital improvement expenditure obligations and tort claims, and the obligation to pay fines, penalties or damages arising out of or relating to violation of federal, state or local laws or regulations which are applicable or purported to be applicable to the operation of the Metropolitan System and provided that the following conditions are met:

(a) there will not have occurred and be continuing an event of default under the terms of the Installment Purchase Agreement, or any other Issuing Instrument or Qualified Swap Agreement or any Termination Event (as defined in a Qualified Swap Agreement) under any Qualified Swap Agreement;

(b) there will have been delivered to the Trustee an opinion of Bond Counsel to the effect that the proposed transfer will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest component of Tax-Exempt Installment Payment Obligations;

(c) the entity will have obtained all necessary licenses, permits and consents from all governmental agencies or authorities having or asserting jurisdiction over the activities of the Metropolitan System;

(d) there will be delivered to all trustees for any Obligations and to any Qualified Swap Provider an opinion of counsel, who may be the City Attorney of the City, to the effect that the Supplements referred to in clauses (h)(1) and (h)(2) below are valid, binding and enforceable against the transferee in the case of a Supplement referred to in clause (h)(1) below and against the City in the case of a Supplement referred to in a clause (h)(2) below;

(e) the City obtains or provides a certificate prepared by a Consultant showing that (i) the estimated Net Metropolitan System Revenues for the next 12 months following the date of transfer will be at least equal to 1.20 times the Maximum Annual Debt Service for all Outstanding Parity Obligations to be assumed by the transferee, assuming for this purpose that the Outstanding Parity Obligations to be assumed by the transferee will include such Obligations; and (ii) the estimated Net Municipal System Revenues for the next 12 months following the date of transfer will be at least equal to 1.20 times the Maximum Annual Debt Service for all Outstanding Parity Obligations not to be assumed by the transferee, assuming for this purpose that the Outstanding Parity Obligations not to be assumed by the transferee will include all such Obligations;

(f) there will be delivered to the Trustee a notice of each of the Rating Agencies then providing ratings on all Obligations to be outstanding immediately after the transfer, reconfirming the ratings on all such Obligations in effect immediately prior to such transfer, without giving effect to any bond insurance, letter of credit, guarantee or other credit support for such Obligations, or alternatively, all such obligations will be defeased or paid in full prior to such transfer;

(g) there will be delivered to each Owner notice of the intended transfer of Metropolitan System Components not less than 30 nor more than 60 days prior to the expected transfer date; and

(h) incident to a transfer of the Metropolitan System permitted by the Installment Purchase Agreement:

(1) the transferee will execute and deliver to the Trustee a Supplement which will contain the following:

(A) the assumption and indemnification by the transferee of all obligations of the City under the Installment Purchase Agreement, but only as they relate to the Metropolitan System, including Obligations the proceeds of which were used to acquire Components for the Metropolitan System;

(B) a pledge by the transferee of Net Metropolitan System Revenues for the payment of assumed Parity Obligations which will be in substantially the same form as the pledge of the City under the Installment Purchase Agreement of Net System Revenues to secure the payment of all Parity Obligations;

(C) representations of the transferee substantially in the form provided by the City under the Installment Purchase Agreement, but only as to the Obligations assumed by the transferee and the covenants to be contained in such Supplement;

(D) covenants of the transferee relating to the acquisition, construction and changes to the Project, but only as to the Components which are or are to be part of the Metropolitan System;

(E) covenants of the transferee relating to Purchase Payments and Installment Payments, but only as they relate to Parity Obligations being assumed by the transferee and the Net Metropolitan System Revenues;

(F) covenants of the transferee relating to the allocation of System Revenues, but limited only to Parity Obligations assumed by the transferee and moneys deposited from Metropolitan System Revenues and Net Metropolitan System Revenues;

(G) covenants of the transferee relating to Additional Obligations, but only within respect to Parity Obligations payable from Net Metropolitan System Revenues (for this purpose the calculations and coverages contemplated thereby will relate only to Metropolitan System Revenues, Maintenance and Operations Costs of the Metropolitan System and Net Metropolitan System Revenues);

(H) covenants of the transferee substantially in the form provided by the City under the Installment Purchase Agreement, (exclusive of covenants relating to the transfer of the Metropolitan System and subcontracting), but only to the extent of the Metropolitan System and Installment Payment Obligations payable from Metropolitan System Revenues and Net Metropolitan System Revenues and Installment Payment Obligations assumed by or of the transferee.

(I) events of default and remedies substantially in the form set forth in the Installment Purchase Agreement, but only relating to Parity Obligations assumed by the transferee; and

(J) covenants of the transferee relating to benefits of the Installment Purchase Agreement amendments of the Installment Purchase Agreement and the effective date, but only with respect to Parity Obligations assumed by the transferee;

(2) the City will execute and deliver a Supplement which will reaffirm all of the City's representations and warranties under the Installment Purchase Agreement and each Supplement, the pledge provided for in, and each of the covenants of the City contained in the Installment Purchase Agreement or any Supplement, provided that such representations, warranties, pledges and covenants will be limited solely and exclusively to the Municipal System, Municipal System Revenues, Maintenance and Operations Costs of the Municipal System and Net Municipal System Revenues, as the case may be.

Upon execution and delivery of such Supplements and upon satisfaction of the conditions specified above, the City will be relieved and discharged from any and all Installment Payment Obligations payable from Net System Metropolitan Revenues and which have been assumed by a transferee.

Maintenance and Operation of the Wastewater System; Budgets. The City will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Wastewater System as they become due and payable. The City will adopt and file with the Authority, on or before the effective date of the Installment Purchase Agreement, a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Wastewater System for the period from such date until the close of the then current Fiscal Year. On or before August 1, of each Fiscal Year, the City will adopt, and on or before 120 days after the beginning of the Fiscal Year, file with the Authority a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Wastewater System for such Fiscal Year. Any budget may be amended at any time during any Fiscal Year and such amended budget will be filed by the City with the Authority.

Amount of Rates and Charges; Rate Stabilization Fund. The City will fix, prescribe and collect rates and charges for the Wastewater Service which will be at least sufficient (a) to pay all Obligations, (other than Parity Obligations), and (b) to yield during each Fiscal Year Net System Revenues equal to one hundred twenty percent (120%) of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement.

The City may establish, as a fund within the Sewer Revenue Fund, a fund denominated the Rate Stabilization Fund. From time to time the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City will determine and the amount of available current System Revenues will be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Wastewater System, and any amounts so transferred will be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues.

Insurance. The City will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers, or provide self insurance reserves, in such amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with wastewater systems similar to the Wastewater System. In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance or self insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Wastewater System will be free and clear of all claims and liens unless the City determines that such property or facility is not necessary to the efficient operation of the Wastewater System and therefore determines not to reconstruct, repair or replace such project or facility. If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds will be deposited in the Sewer Revenue Fund and be available for other proper uses of funds deposited in the Sewer Revenue Fund.

The City will procure and maintain such other insurance which it will deem advisable or necessary to protect its interests and the interests of the Authority, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with wastewater systems similar to the Wastewater System; provided that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with wastewater systems similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained in the Installment Purchase Agreement will, to the extent reasonably obtainable, provide that the Authority and the Trustee will be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records, Financial Statements and Other Reports. The City will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Wastewater System, which records will be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

The City will prepare and file with the Authority and the Trustee, annually after the close of each Fiscal Year, the following:

- (1) within 270 days financial statements of the Sewer Revenue Fund for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon;
- (2) within 45 days, a detailed report as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Wastewater System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby; and
- (3) the City will furnish a copy of the financial statements referred to above to any Owner of the Bonds requesting a copy thereof.

Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Wastewater System or any part thereof or upon the System Revenues when the same will become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof, but the City will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith.

Collection of Rates and Charges; No Free Service. The City will have in effect at all times rules and regulations for the payment of bills for Wastewater Services, and that such regulations will provide that where the City furnishes water to the property receiving Wastewater Service, the Wastewater Service charges will be collected together with the water rates upon the same bill providing for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may disconnect such premises from the water service, and such premises will not thereafter be reconnected to the water service except in accordance with City operating rules and regulations governing such situations of delinquency. The City will not permit any part of the Wastewater System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public corporation or agency of any thereof).

Eminent Domain Proceeds. If all or any part of the Wastewater System will be taken by eminent domain proceedings, then subject to the provisions of any Authorizing Ordinance, the Net Proceeds thereof will be applied to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient operation of the Wastewater System and therefore determines not to replace such property or facilities. Any Net Proceeds of such award not applied to replacement or remaining after such work has been completed will be deposited in the Sewer Revenue Fund and be available for other proper uses of funds deposited in the Sewer Revenue Fund.

Tax Covenants. There will be included in each Supplement relating to Tax-Exempt Installment Payment Obligations such covenants as are deemed necessary or appropriate by Bond Counsel for the purpose of assuring that interest on such Installment Payment Obligations will be excluded from gross income under Section 103 of the Code.

Operate Wastewater System. The City will operate the Wastewater System in an efficient and economical manner, provided that the City may remove from the service on a temporary or permanent basis such part or parts of the Wastewater System so long as (a) Net System Revenues are equal to 120% of the Debt Service for the then current Fiscal Year and for each Fiscal Year thereafter to and including the Fiscal Year during which the last

Installment Payment is due as evidenced by an engineer's report on file with the City, and (b) the City will have filed with the Trustee an opinion of nationally recognized bond counsel to the effect that the removal of such part or parts of the Wastewater System will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on Tax-Exempt Installment Payment Obligations.

Prepayment of Installment Payments

Provisions may be made in any Supplement for the prepayment of Installment Payments, in whole or in part, in such multiples and in such order of maturity and from funds of any source, and with such prepayment premiums and other terms as are specified in the Supplement. Said Supplement will also provide for any notices to be given relating to such prepayment.

Events of Default and Remedies of the Authority

The following will be "events of default" under the Installment Purchase Agreement:

- (a) failure in the due and punctual payment of or on account of any Parity Obligation as the same will become due and payable;
- (b) failure by the City in the performance of any of the agreements or covenants required to be performed by it in the Installment Purchase Agreement (other than as specified in (a) above), and such default will have continued for 60 days after the City has been given notice in writing of such default by the Authority;
- (c) if any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument will have occurred and be continuing; or
- (d) if the City files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the City or of the whole or any substantial part of its property;

then and in each case during the continuance of such event of default, the Authority will upon the written request of the Owners of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, voting collectively as a single class, by written notice to the City, declare the entire unpaid principal amount thereof and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same will become immediately due and payable; provided, that with respect to a Series of Parity Installment Obligations which is credit enhanced by Credit Support, acceleration will not be effective unless the declaration is consented to by the related Credit Provider and, provided further, that nothing in the Installment Purchase Agreement will affect the rights of the parties to a Qualified Swap Agreement to terminate such Qualified Swap Agreement. If at any time after the entire principal amount of all Series of Parity Installment Obligations and the accrued interest thereon have been so declared due and payable and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the City will deposit with the Authority a sum sufficient to pay the unpaid principal amount of all such Series of Parity Installment Obligations and the unpaid payments of any other Parity Obligations referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority, will have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate will have been made therefor, then the Authority, by written notice to the City, may rescind and annul such declaration and its consequences.

Discharge of Obligations

If (i) the City will pay or cause to be paid or there will otherwise be paid to the Owners all Outstanding Installment Payment Obligations of a Series the interest thereon and the principal thereof and the redemption

premiums, if any, thereon or if all Outstanding Obligations will be deemed to have been paid at the times and in the manner stipulated in the applicable Issuing Instrument, and (ii) the transfer of ownership of substantially all of the Metropolitan System, as contemplated by the Installment Purchase Agreement will have occurred, then all agreements, covenants and other obligations of the City under the Installment Purchase Agreement will thereupon cease, terminate and become void and be discharged and satisfied except for the obligation of the City to pay or cause to be paid all sums due thereunder.

Amendments

The Installment Purchase Agreement may be amended with respect to a Series of Installment Payment Obligations in writing as may be mutually agreed by the City and the Authority, with the written consent of any Credit Provider which is providing insurance until the final maturity or payment in full of one or more maturities of such Installment Payment Obligations, or any other Credit Provider for such Installment Payment Obligations and the Owners of 60 % or more in aggregate principal amount of such Installment Payment Obligations then Outstanding, provided that no such amendment will (i) extend the payment date of any Installment Payment, or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Obligation so affected, (ii) reduce the percentage of Installment Payment Obligations the consent of the Owners of which is required for the execution of any amendment of the Installment Purchase Agreement, or (iii) amend the provisions of transfer of the Metropolitan System Components without an unqualified opinion of nationally recognized Bond Counsel to the effect that such amendment does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners of Tax-Exempt Installment Payment Obligations from gross income under Section 103 of the Code. Notwithstanding the foregoing, so long as the City has any obligations under a Qualified Swap Agreement, it will not amend or modify, or consent to the amendment or modification of, the Installment Purchase Agreement that would in any way adversely affect (A) the rights of a counterparty to a Qualified Swap Agreement under the Installment Purchase Agreement, or (B) the obligations of the City under the Installment Purchase Agreement to such a counterparty without the prior written consent of such Qualified Swap Provider.

With the written consent of any Credit Provider, the Installment Purchase Agreement and the rights and obligations of the City and the Authority thereunder may also be amended, without the written consent of any Owner of Installment Obligations, but only to the extent permitted by law and only upon receipt of an unqualified opinion of nationally recognized Bond Counsel selected by the City and approved by the Authority to the effect that such amendment or supplement is permitted by the provisions of the Installment Purchase Agreement and is not inconsistent therewith and does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners from gross income for federal tax purposes, and only (i) to add to the covenants and agreements of the Authority or the City or to surrender any reserved right or power to or conferred upon the Authority or the City, and which will not adversely affect the interests of the Owners of the Installment Payment Obligations; (ii) to cure, correct or supplement any ambiguous or defective provision, as the Authority or the City may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Installment Payment Obligations; and (iii) to make such other amendments or modifications which will not materially adversely affect the interests of the Owners of the Installment Payment Obligations.

Provisions Relating to Ambac

Notifications to Ambac. (a) In the event and to the extent that moneys on deposit in the Payment Fund are insufficient to pay the amount of principal and interest on Bonds, then upon the later of (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the Trustee certifying that payment due under the Installment Purchase Agreement has not been made to the Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Trustee, or its successor, sufficient for the payment to the Trustee of amounts which are then due to the Trustee under the Indenture (as specified in the Demand for Payment) up to but not in excess of the lesser of the Reserve Requirement or the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, including funds in the Reserve Fund ("Funds"), amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), or both

Funds and Additional Funding Instruments, the first source of funding shall be any Available Funds, followed by draws on the Surety Bond and the Additional Funding Instruments, which shall be made on a pro rata basis to fund the balance.

(b) The Trustee shall, after submitting to Ambac the Demand for Payment as provided in (a) above, make available to Ambac all records relating to the Funds and Accounts maintained hereunder. The Trustee shall upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Reserve Fund to the extent of moneys received pursuant to such Demand.

(c) Notwithstanding any other provision of the Indenture, the Trustee shall promptly notify Ambac if at any time there are insufficient monies to make the full amount of any interest or principal payment due and payable on the Bonds in less than 5 days after such notice to Ambac, and shall promptly notify Ambac of the occurrence of an Event of Default of which the Trustee has knowledge.

Consent of Ambac. (a) Any provision of the Indenture expressly recognizing or granting rights in or to Ambac may not be amended in any manner which adversely affects the rights of Ambac thereunder without the prior written consent of Ambac.

(b) In addition, unless otherwise provided in the Indenture, Ambac's consent, which shall not be unreasonably withheld, shall be required in addition to Bondholder consent, when required, for the following purposes, but only if the consent of any issuer of a municipal bond insurance policy on any Bonds now or hereafter Outstanding is not required: (i) execution and delivery of any supplemental Indenture or any amendment, supplement or change to or modification of the Installment Purchase Agreement; (ii) removal of the Trustee or selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent."

1999-1 Supplement

Tax Exemption. The City will not directly or indirectly use or permit the use of any proceeds of the Component Obligation Series 1999 or any other funds of the City or of the Project or take or omit to take any action that would cause the Component Obligation Series 1999 to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code.

The City covenants that it will not take any action, or fail to take any action, if such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by the Component Obligation Series 1999 under Section 103 of the Code. The City will not directly or indirectly use or permit the use of any proceeds of the Component Obligation Series 1999 or any other funds of the City, or take or omit to take any action, that would cause the Component Obligation Series 1999 to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Component Obligation Series 1999. In the event that at any time the City is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the City will so instruct the Trustee in writing, and will cause the Trustee to take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there will be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Component Obligation Series 1999 from time to time. This covenant will survive payment in full or defeasance of the Component Obligation Series 1999. The City specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the 1999-1 Supplement the Rebate Requirement, as described in the Tax Certificate, and to otherwise comply with the provisions of the Tax Certificate executed by the City in connection with the execution and delivery of the Component Obligation Series 1999.

Notwithstanding any provision of the tax covenants of the 1999-1 Supplement, if the City provides to the Trustee an opinion of nationally recognized Bond Counsel to the effect that any action required under the tax covenants contained in the 1999-1 Supplement is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Component Obligation Series 1999 pursuant to Section 103 of the Code, the City may rely conclusively on such opinion in complying with the provisions thereof, and the covenants under the 1999-1 Supplement will be deemed to be modified to that extent.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the 1999-1 Supplement, failure of the City to comply with the Continuing Disclosure Agreement will not be considered a default of any kind under the 1999-1 Supplement or the Installment Purchase Agreement; however, the Trustee may (and, at the request of any Participating Underwriter, the Bond Insurer or the Owners of at least twenty-five percent (25%) in aggregate principal amount of Component Obligation Series 1999, will) or the Bond Insurer or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations under the 1999-1 Supplement.

APPENDIX E
FORM OF CO-BOND COUNSEL OPINION

APPENDIX E

FORM OF CO-BOND COUNSEL OPINION

Upon delivery of the Series 1999 Bonds, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Webster & Anderson, Oakland, California, Co-Bond Counsel, propose to render their final approving opinion with respect to the Series 1999 Bonds in substantially the following form:

Orrick, Herrington & Sutcliffe LLP
777 South Figueroa Street, Suite 3200
Los Angeles, California 90017

Webster & Anderson
The Gladstone Building
469 Ninth Street, Suite 240
Oakland, California 94607

March 17, 1999

Public Facilities Financing Authority
of the City of San Diego
202 C Street
San Diego, California 92101

City of San Diego
202 C Street
San Diego, California 92101

Public Facilities Financing Authority of the City of San Diego
Sewer Revenue Bonds, Series 1999A and Series 1999B
(Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of \$315,410,000 aggregate principal amount of its Sewer Revenue Bonds, Series 1999A and Series 1999B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) (collectively, the "Series 1999 Bonds"), issued pursuant to an Indenture, dated as of September 1, 1993, between the Authority and State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee"), as amended and supplemented from time to time, including as amended and supplemented by the Fifth Supplemental Indenture, dated as of March 1, 1999, between the Authority and the Trustee (as so amended and supplemented, the "Indenture"). The Series 1999 Bonds are payable from installment payments payable by the City of San Diego (the "City") to the Authority pursuant to a Master Installment Purchase Agreement, dated as of September 1, 1993, between the Authority and the City, as amended and supplemented from time to time, including as amended and supplemented by the 1999-1 Supplement to the Master Installment Purchase Agreement, dated as of March 1, 1999, between the City and the Authority (as so amended and supplemented, the "Installment Purchase Agreement"), under which the Authority sells to the City portions of a wastewater system. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture and the Installment Purchase Agreement.

In such connection, we have reviewed the Indenture, the Installment Purchase Agreement, the Tax Certificate and Agreement of the City and the Authority, dated the date hereof (the "Tax Certificate"), certificates of the City, the Authority, the Trustee and others, opinions of the City Attorney, General Counsel to the Authority and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Installment Purchase Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 1999 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Series 1999 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Series 1999 Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the City. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Installment Purchase Agreement and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 1999 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 1999 Bonds, the Indenture, the Installment Purchase Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 1999 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof we are of the following opinions:

1. The Series 1999 Bonds constitute the valid and binding limited obligations of the Authority.
2. The Series 1999 Bonds are limited obligations of the Authority and are payable solely from Revenues (as such term is defined in the Indenture), which Revenues include Installment Payments pursuant to the Installment Purchase Agreement, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund).
3. The Indenture and the Installment Purchase Agreement have been duly executed and delivered by, and constitute the valid and binding obligations of, the Authority, enforceable against the Authority in accordance with their respective terms. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 1999 Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Series 1999 Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.
4. The Installment Purchase Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City, enforceable against the City in accordance with its terms. The Installment

Purchase Agreement creates a valid pledge of Net System Revenues to secure the payment of Installment Payments to the Authority, on the terms and conditions set forth therein.

5. Interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is exempt from State of California personal income taxes. The amount, if any, by which the issue price of any maturity of the Series 1999 Bonds is less than the amount to be paid at maturity with respect to such Series 1999 Bonds (excluding the amounts stated to be interest) constitutes original issue discount, the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 1999 Bonds which is excluded from gross income for federal income tax purposes under Section 103 of the Code and exempt from State of California personal income taxes. The issue price of Series 1999 Bonds with the same terms and maturity is the first price at which a substantial amount of such maturity of the Series 1999 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Interest (including original issue discount) on the Series 1999 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest (including original issue discount) on the Series 1999 Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 1999 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

Faithfully yours,

WEBSTER & ANDERSON

**APPENDIX F
SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in and to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a large, diagonal "SPECIMEN" watermark.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in black ink, appearing to be "Quincy Brown", written over a large, diagonal "SPECIMEN" watermark.

Authorized Officer



Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a horizontal line.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

A handwritten signature in black ink, appearing to be "Quincy Brown", written over a horizontal line.

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Mandatory California State Amendatory Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a horizontal line.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

A handwritten signature in black ink, appearing to be "Gary Brown", written over a horizontal line.

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

Form E-0059 (10/93)

Page 1 of 1

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Mandatory California State Amendatory Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a horizontal line.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

A handwritten signature in black ink, appearing to be "Quincy Brown", written over a horizontal line.

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

Form E-0075 (3/94)

Page 1 of 1

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond maturing on _____, the amount insured under this Policy is that portion of the accreted value (as set forth in the bond documents under which the Bonds are issued) of said Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a horizontal line.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

A handwritten signature in black ink, appearing to be "Quincy Brown", written over a horizontal line.

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

APPENDIX G
FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

Relating to

\$315,410,000

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO SEWER REVENUE
BONDS, SERIES 1999A AND SERIES 1999B
(Payable Solely From Installment Payments
Secured by Wastewater System Net Revenues)**

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the City of San Diego (the "City") and State Street Bank and Trust Company of California, N.A., in its capacity as dissemination agent (the "Dissemination Agent") in connection with the issuance of \$315,410,000 Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1999A and Series 1999B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues) (together, the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of September 1, 1993, between the Public Facilities Financing Authority of the City of San Diego (the "Authority") and State Street Bank and Trust Company of California, N.A., in its capacity as trustee (the "Trustee"), as amended by a First Supplemental Indenture, dated as of May 1, 1994, a Second Supplemental Indenture, dated as of December 1, 1995, a Third Supplemental Indenture, dated as of February 1, 1997, a Fourth Supplemental Indenture, dated as of September 1, 1998 and a Fifth Supplemental Indenture, dated as of March 1, 1999 (the "Fifth Supplemental Indenture"), each between the Authority and the Trustee (collectively, the "Indenture"). Debt service on the Bonds will be paid from installment payments made by the City pursuant to a Master Installment Purchase Agreement, dated as of September 1, 1993, between the Authority and the City, as amended by the 1993-1 Supplement, dated as of September 1, 1993, the 1995-1 Supplement, dated as of December 1, 1995, the 1997-1 Supplement, dated as of February 1, 1997, the 1998-1 Supplement, dated as of September 1, 1998 and the 1999-1 Supplement, dated as of March 1, 1999 (the "1999-1 Supplement"), each between the City and the Authority (collectively, the "Installment Purchase Agreement"). Pursuant to Section 5.02 of the Fifth Supplemental Indenture and Section 5.02 of the 1999-1 Supplement, the City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below). The City and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Owner or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Bond Insurance Policy" shall mean the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Bonds.

"Bond Insurer" shall mean Financial Guaranty Insurance Company or any successor thereto.

"Disclosure Representative" shall mean the Deputy City Manager of the City or his or her designee, or such other person as the City shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean State Street Bank and Trust Company of California, N.A., or any successor Dissemination Agent designated in writing by the City which has filed with the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which fiscal year presently ends June 30), commencing with the report for the 1998-99 fiscal year, provide to each Repository, the Bond Insurer and the Dissemination Agent an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If by such date the Trustee has not received a copy of the Annual Report, the Dissemination Agent shall contact the City and the Trustee to inquire if the City is in compliance with the first sentence of this subsection (a). Neither the Dissemination Agent nor the Trustee shall have no duty or obligation to review such Annual Report. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City of San Diego Sewer Utility may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City or an employee of the City).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the City (if the Dissemination Agent is not the City), the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the City of San Diego Sewer Utility for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board or as otherwise required by applicable State law. If the City of San Diego Sewer Utility's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.
2. An update of the information contained in Table 2 of the Official Statement, dated March 2, 1999, relating to the Bonds (the "Official Statement") for the most recently completed fiscal year.
3. An update of the information contained in Table 3 of the Official Statement for the most recently completed fiscal year (exclusive of the information contained under the column heading "Estimated Population").
4. The amounts appropriated for the projects contained in Table 4 of the Official Statement during the most recently completed fiscal year.
5. An update of the information contained in Table 5 of the Official Statement for the most recently completed fiscal year.
6. An update of the information contained in Table 6 of the Official Statement for the five most recently completed fiscal years.
7. An update of the information contained in Table 7 of the Official Statement for the most recently completed fiscal year.
8. An update of the information contained in Table 8 of the Official Statement for the five most recently completed fiscal years.
9. An update of the information contained in Table 9 of the Official Statement for the five most recently completed fiscal years.
10. An update of the information contained in Table 10 of the Official Statement for the five most recently completed fiscal years.
11. An update of the information contained in Table 11 of the Official Statement for the five most recently completed fiscal years.
12. Information contained in Table 12 of the Official Statement will be available in the City's audited financial statements.
13. Information contained in Table 13 of the Official Statement will be available in Exhibit D of the City's audited financial statements.

14. Information contained in Table 14 of the Official Statement will be available in Schedules F-1 and F-2 of the City's audited financial statements or it will be presented in tabular form comparable to Table 14.

15. An update of the information contained in the Official Statement under the heading "LABOR RELATIONS" for the most recently completed fiscal year.

16. An update of the information contained in the Official Statement in the third paragraph under the heading "PENSION PLAN" for the most recently completed fiscal year.

17. An update of the information contained in Table 15 of the Official Statement for the five most recently completed fiscal years.

18. An update of the information contained in the Official Statement under the heading "INVESTMENT OF FUNDS - Pool Liquidity and Other Characteristics," "-Derivatives" and "- Reverse Repurchase Agreement" and contained in Table 16 of the Official Statement for the most recently completed fiscal year.

SECTION 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on debt service reserves reflecting financial difficulties.
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent (if other than the City) shall, as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(f) and promptly direct the Dissemination Agent whether or not to report such event to the Bondholders. In the absence of such direction, the Dissemination Agent shall not report such event unless otherwise required to be reported by the Dissemination Agent to the Bondholders under the Indenture. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the Dissemination Agent if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to Section 5(b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 5(f).

(e) If in response to a request under Section 5(b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent (if other than the City) not to report the occurrence pursuant to Section 5(f).

(f) If the Dissemination Agent is not the City and has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories with a copy to the City and the Bond Insurer. Notwithstanding the foregoing, notice of Listed Events described in Sections 5(a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the City's obligations under the Installment Purchase Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the City and the original City shall have no further responsibility hereunder. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the City, provided, the Trustee shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the

amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter, the Bond Insurer or the Owners of at least 25% in aggregate principal amount of Outstanding Bonds, shall), or the Bond Insurer or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Installment Purchase Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Authority, the Bondholders or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties related to this Disclosure Agreement may be given as follows:

To the City:

City of San Diego
Financial and Technical Services Business Center
202 C Street, M.S. 9-B
San Diego, California 92101-3868
Attention: Ms. Patricia Frazier
Deputy City Manager, Financial and Technical Services
Telephone: (619) 236-6070
Fax: (619) 236-7344

To the Dissemination Agent
or the Trustee:

State Street Bank and Trust Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90017
Attention: Corporate Trust Department
Telephone: (213) 362-7345
Fax: (213) 362-7357

To the Bond Insurer:

Financial Guaranty Insurance Company
115 Broadway
New York, New York 10006
Attention: General Counsel
Telephone: (212) 312-3067
Fax: (212) 312-3206

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the City, the Trustee, the Dissemination Agent, the Participating Underwriters, the Bond Insurer and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: March 17, 1999

CITY OF SAN DIEGO

By _____
Authorized Officer

STATE STREET BANK AND TRUST
COMPANY OF CALIFORNIA, N.A.,
as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Public Facilities Financing Authority of the City
of San Diego (the "Authority")

Name of Bond Issue: Public Facilities Financing Authority of the City of San Diego
Sewer Revenue Bonds, Series 1999A and Series 1999B (Payable Solely from
Installment Payments Secured by Wastewater System Net Revenues)

Name of Obligated Person: City of San Diego

Date of Issuance: March 17, 1999

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.02 of the 1999-1 Supplement to the Master Installment Purchase Agreement, dated as of March 1, 1999 between the Authority and the City. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SAN DIEGO